

For aircraft companies: One problem, many solutions

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BUSINESS WEEK

A MCGRAW-HILL PUBLICATION

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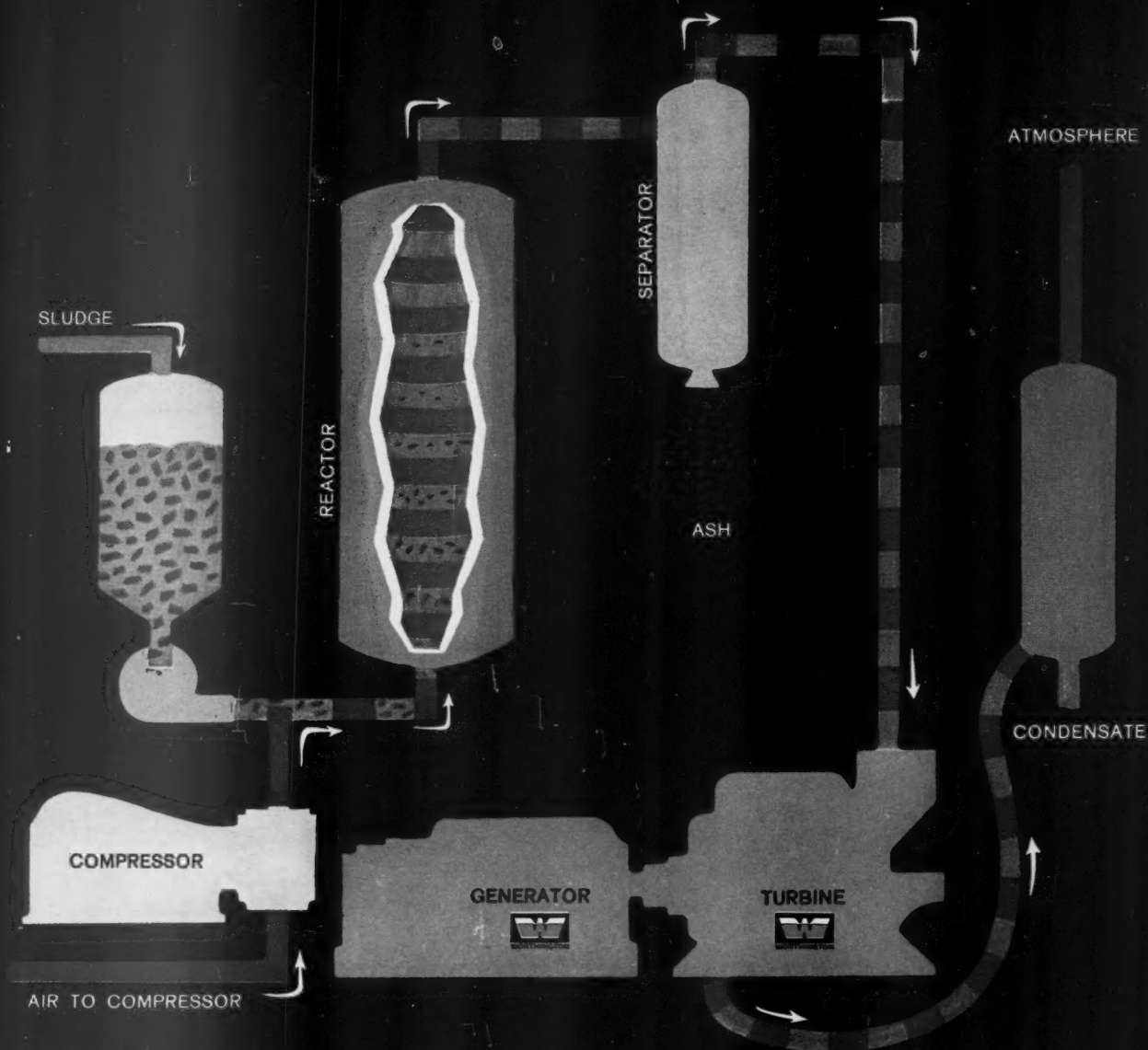
THE UNIVERSITY
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George G. Walker of Electric
Bond & Share is building a new
industrial complex on the ruins
of an old empire. (Finance)

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PRODUCTS THAT WORK FOR YOUR PROFIT

GENERAL BUSINESS

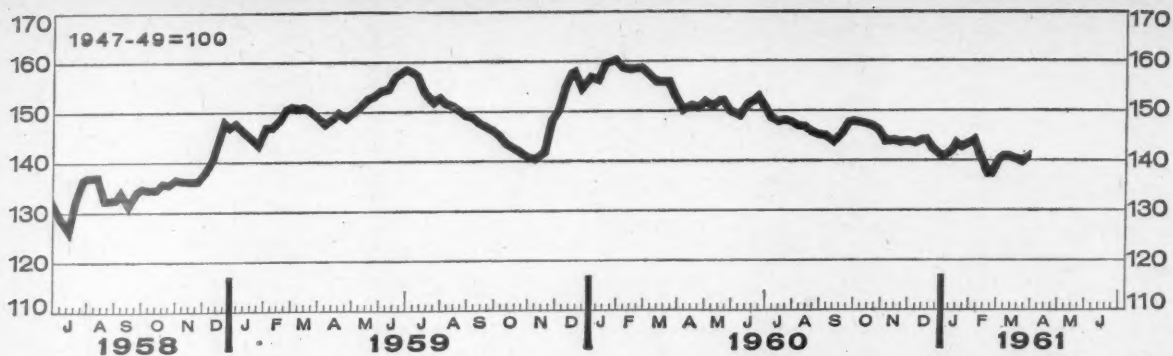
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BUSINESS WEEK INDEX (chart)

1953-55 Average	Year Ago	Month Ago	Week Ago	\$ Latest Week
133.3	153.4	141.4	141.2r	141.7*

PRODUCTION

Steel ingot (thous. of tons).....	2,032	2,527	1,580	1,611r	1,632
Automobiles	125,553	147,830	92,024	87,808r	101,902
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.).....	\$52,412	\$65,315	\$68,052	\$62,780	\$65,891
Electric power (millions of kilowatt-hours).....	10,819	13,900r	14,487r	14,549r	14,163*
Crude oil and condensate (daily av., thous. of bbls.).....	6,536	7,151	7,241	7,366	7,351
Bituminous coal (daily av., thous. of tons).....	1,455	1,485	1,103	1,083r	1,104
Paperboard (tons)	247,488	304,514	316,648	313,642	320,592

TRADE

Carloadings: miscellaneous and l.c.l. (daily av., thous. of cars).....	70	59	51	52	52
Carloadings: all others (daily av., thous. of cars).....	47	41	34	32	32
Department store sales index (1947-49 = 100, not seasonally adjusted).....	121	131	122	140	139
Business failures (Dun & Bradstreet, number).....	198	356	408	359	350

PRICES

Industrial raw materials, daily index (BLS, 1947-49 = 100).....	89.2	92.6	91.3	92.5	92.1
Foodstuffs, daily index (BLS, 1947-49 = 100).....	90.5	76.0	77.8	78.2	78.1
Print cloth (spot and nearby, yd.).....	19.8¢	20.5¢	17.5¢	17.5¢	17.5¢
Finished steel, index (BLS, 1947-49 = 100).....	143.9	186.8	186.2	186.2	186.2
Scrap steel composite (Iron Age, ton).....	\$36.10	\$33.17	\$35.83	\$39.17	\$39.50
Copper (electrolytic, delivered price, E&MJ, lb.).....	32.39¢	33.00¢	29.00¢	29.00¢	29.00¢
Aluminum, primary pig (U. S. del., E&MJ, lb.).....	20.6¢	26.0¢	26.0¢	26.0¢	26.0¢
Aluminum, secondary alloy #380, 1% zinc (U. S. del., E&MJ, lb.).....	††	25.01¢	22.92¢	22.52¢	22.61¢
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.).....	\$2.34	\$2.12	\$2.05	\$1.99	\$1.95
Cotton, daily price (middling, 1 in., 14 designated markets, lb.).....	34.57¢	32.04¢	30.92¢	31.20¢	31.27¢
Wool tops (Boston, lb.).....	\$1.96	\$1.74	\$1.65	\$1.64	\$1.62

FINANCE

500 stocks composite, price index (S&P's, 1941-43 = 10).....	31.64	55.74	63.75	64.52	65.45
Medium grade corporate bond yield (Baa issue, Moody's).....	3.59%	5.18%	5.03%	5.02%	5.01%
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate).....	2-2½%	4½%	3½%	2¾%	3%

BANKING (Millions of Dollars)

Demand deposits adjusted, reporting member banks.....	††	59,072	59,291	59,706	59,488
Total loans and investments, reporting member banks.....	††	101,040	109,641	109,119	108,673
Commercial, industrial and agricultural loans, reporting member banks.....	††	31,930	32,389	33,121	33,063
U. S. Gov't guaranteed obligations held, reporting member banks.....	††	24,493	30,265	29,451	29,155
Total federal reserve credit outstanding.....	26,424	26,778	28,109	28,234	27,863
Gold Stock	21,879	19,408	17,373	17,389	17,388

MONTHLY FIGURES OF THE WEEK

	1953-55 Average	Year Ago	Month Ago	Latest Month
Private expenditures for new construction (in millions).....	\$2,390	\$2,875	\$2,577	\$2,756
Public expenditures for new construction (in millions).....	\$980	\$991	\$1,010	\$1,115
Employment (in millions).....	62.2	64.3	64.7	65.5
Unemployment (in millions).....	2.5	4.2	5.7	5.5
Consumer credit outstanding (in billions).....	\$34.1	\$51.2	\$55.0	\$54.1
Installment credit outstanding (in billions).....	\$24.2	\$39.8	\$42.8	\$42.3
Manufacturers' inventories (seasonally adjusted, in billions).....	\$45.2	\$53.9	\$53.7	\$53.6
Exports (in millions).....	\$1,290	\$1,576	\$1,647	\$1,672

* Preliminary, week ended April 1, 1961.

†† Not available. Series revised.
N.A. Not available at press time.

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† Date for 'Latest Week' on each series on request.

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READERS REPORT

Hitting All Groups

Dear Sir:

In "The Question of Structural Unemployment" [BW—Mar.25'61, p52], you incorrectly quote me as saying that "hard-core" unemployment is "only an insignificant fraction" of the total.

Let me quote directly both the Council's prepared statement and the verbatim transcript of my testimony, which expressly concentrates on the rise in unemployment rather than the existing level: "Only an insignificant fraction of this rise (of unemployment over the last eight years) can be traced to the shift in composition of the labor force. The growth of unemployment has been a pervasive one, hitting all segments of the labor force." Later, I added, "Yet, there is no evidence that hard-core unemployment has been growing as a percent of the labor force."

Our proposed approaches to policy, as reflected in our testimony, clearly recognize both structural and cyclical unemployment as significant problems: "Measures to improve the mobility of labor to jobs and of jobs to labor, to better our educational facilities, to match future supplies of different skills and occupations to the probable pattern of future demand, and to improve the health of the population—these are and should be high on the agenda of national policy."

"But they are no substitute for fiscal, monetary, and credit policies for economic recovery. Adjustments that now seem difficult, and unemployment pockets that now seem intractable, will turn out to be manageable after all in an environment of full prosperity."

WALTER W. HELLER

CHAIRMAN OF THE COUNCIL OF
ECONOMIC ADVISERS
WASHINGTON, D. C.

Describing a Market

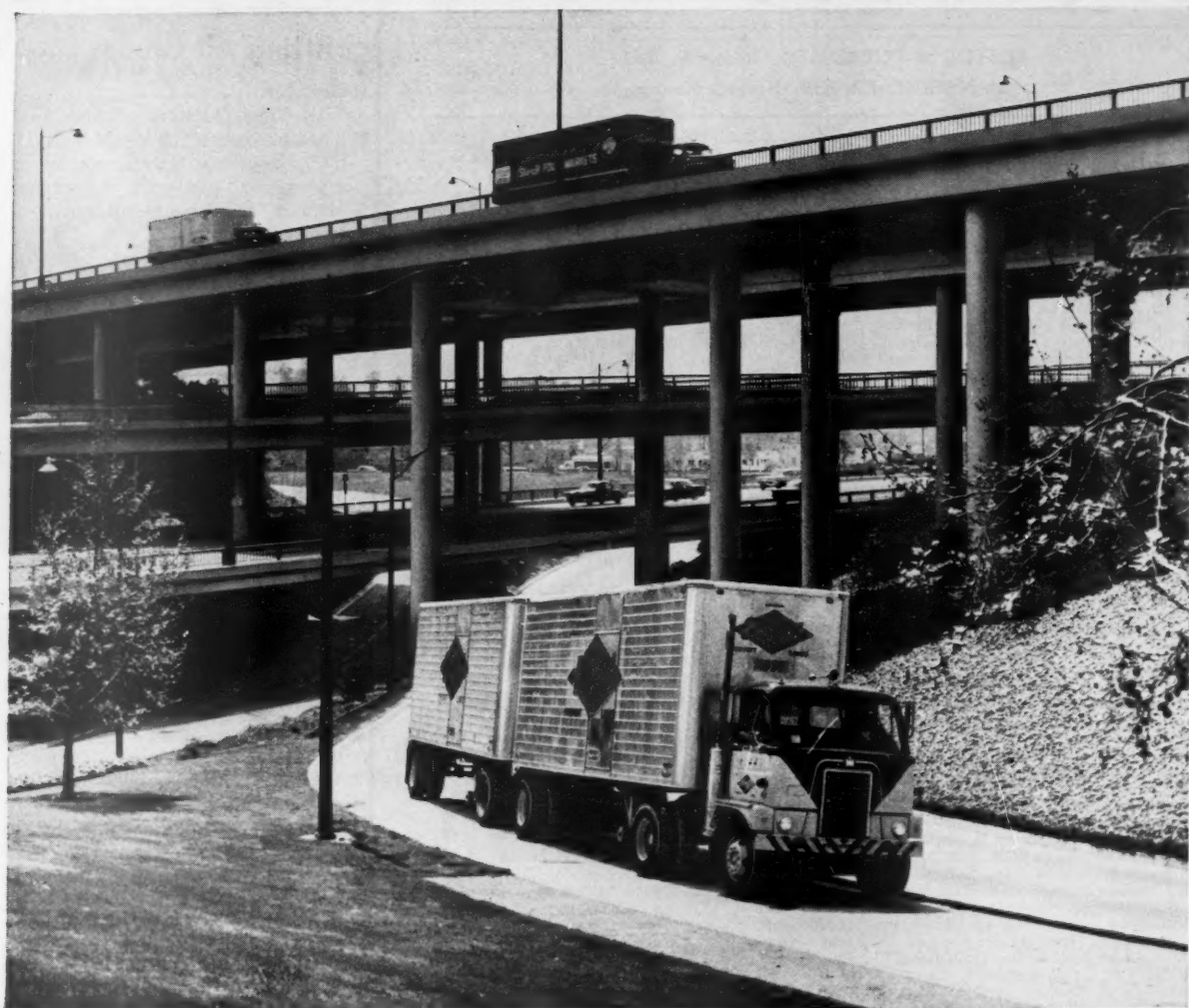
Dear Sir:

It is a pleasure to congratulate BUSINESS WEEK on the article on "Over-the-Counter Trading" [BW—Mar.25'61,p132]. . . . Your piece gave an eminently fair description of the workings of this important market, and I am sure that no one in the business would take major issue with any of your statements.

CARL STOLLE

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BUSINESS OUTLOOK

BUSINESS WEEK

APR. 8, 1961



The sweet smell of recovery is in the air, as the second quarter gets under way. More and more experts are joining the chorus of those who insist that the "bottoming out" occurred in February and March and that from now on improvement will be gradual and orderly.

It begins to look as though this has been the briefest and shallowest recession of the postwar period.

Signs of strength in that sensitive area where it counts most—durable goods—are multiplying at an encouraging pace.

Most welcome of all is the long-awaited upturn in durable goods inventories that signals the shift of policy toward rebuilding of stocks.

Even though the February gain was slight—only \$30-million on an unadjusted basis—it confirms the suspicion that the runoff in hardgoods has just about ended.

From now on you can expect production to be more closely related to sales, because manufacturers will no longer be working off inventories. These now are considered nicely "in balance"—and, as one expert puts it: "There's nowhere to go but up."

Indications are, however, that there will be no rapid buildup of stocks, as there was in 1958. Caution is the watchword; manufacturers will continue to play it by ear—at least until lasting recovery is clearly in sight.

Manufacturers' orders for hardgoods edged past shipments for the first time in 14 months (save for a one-month spurt of defense orders last fall).

New orders for durables, seasonally adjusted, rose \$480-million over January, and brought a heartening rise of \$240-million in unfilled orders.

A month earlier the backlog stood at a 10-year low of only \$42.6-billion—\$5-billion less than a year ago.

The March pickup in auto sales, structural steel bookings, and the speedup in letting of defense contracts doubtless is swelling the backlog even more.

Steel warehouses have a few words of mild optimism on activity in metalworking. Their shipments in March were about 10% ahead of the rate in 1960's final quarter.

The warehouses—service centers as they now more appropriately style themselves—are processing a greatly increased number of orders.

The average size of the orders is small, however. This leads members of the Steel Service Institute to believe that the orders represent hand-to-mouth buying by plants low on inventory.

There's more good news for steel in the latest auto production schedule for the second quarter. Encouraged by the greatly improved sales picture in March, auto makers are setting their sights on an April-June output totaling 1,406,000 passenger cars, according to Ward's Automotive Reports.

BUSINESS OUTLOOK (Continued)

BUSINESS WEEK

APR. 8, 1961

The planned upturn—which calls for consecutive stepups in monthly operations from an estimated 407,100 in March, to 493,000 by June—would boost the April-June quarter 18.4% above the dismal first-quarter output of only 1,187,250.

Even with this increase, however, auto production will fall more than 400,000 units short of second-quarter, 1960.

Once these new production plans are translated into output, they will set off a chain reaction in rehiring, materials buying, and distribution that may provide just the spring tonic the economy needs.

Both employment and unemployment touched record highs for March. Moreover, the employment rise was 200,000 better than the normal seasonal gain.

As expected, unemployment dropped by more than 200,000—though the adjusted rate crept up another notch to 6.9% of the labor force.

The rate probably would have levelled off or, perhaps, dipped a little had it not been for large-scale layoffs in the auto industry. At mid-March, normally a period of peak or near-peak output, automakers shaved production to less than half that of a year earlier. A week later, assembly picked up appreciably.

The mild weather during March helped outdoor workers recoup some of their winter losses. Construction put-in-place in the first quarter was about on a par with the January-March period last year—despite more severe weather in the first two months this year, plus the loss of more than a half-billion dollars from homebuilding.

New vigor in public works gets the credit for bracing up the total; the gain in public construction over the quarter just about equals the drop in private work caused by the housing slump.

The dollar value of work put-in-place moved up to an annual rate of \$54.7-billion during March. All of the gain over February (seasonally adjusted) was in private construction.

Private residential work gained \$248-million (at an annual rate) over February, but remained \$2.5-billion below the March rate last year.

A sudden burst of highway contract lettings this week gave public works a slight edge over private jobs in the amount of heavy construction contracts let during the first 14 weeks of 1961, according to McGraw-Hill's Construction Daily.

Highway contracts, now totaling \$928-million, are running 36% ahead of last year—and lots more are in the hopper.

Private engineering construction is getting a substantial lift from industrial and commercial jobs that help to offset the 2% drop in mass housing (the \$400,000-plus projects).

Contracts for industrial plants are running 40% ahead of last year, and, according to Construction Daily, are being let just as fast as they come off the drawing boards.

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IN FOREIGN POLICY, KENNEDY AND RUSK SHAPE A . . .

New Tough but Flexible Line

The U.S. is asserting leadership in solving troubles dotted all over the globe. In talks with Allied statesmen, beginning with Prime Minister Macmillan this week, Kennedy is also taking a firm stand on issues.

Thorny foreign policy decisions are pressing in on Pres. Kennedy from all sides this week. And the President, with Secy. of State Dean Rusk in full agreement (picture), is approaching them with a tough-minded, though not inflexible, attitude.

Kennedy strongly believes that the time has come for Washington to show a new decisiveness in the handling of U.S. foreign policy, whether the problem is Cuba, Laos, Berlin, or the Congo. Although not all the decisions have been taken yet, nor all the risks

calculated, the goal is clear—a stronger U.S. position in the world.

• **Lines Drawn**—In dealing with the Communist camp, Kennedy will mix flexibility with firmness. He is ready to meet the Soviets halfway on disarmament. In resisting local Communist pressures outside this hemisphere, he is prepared to accept standoffs but not outright defeats. In Cuba, he will give no quarter to Castro's Communist-dominated regime.

When it comes to the Western Alliance, the President is determined

to reassert U.S. leadership, even if some feelings are ruffled in the process. He is making this plain during his talks this week with Britain's Prime Minister Harold Macmillan both on world issues and on specific problems of the alliance. The same will be true when he meets West German Chancellor Konrad Adenauer a week later, and Pres. Charles de Gaulle in Paris at the end of May.

I. Policy on Hot Spots

Here is a list of the critical problems that Kennedy is facing. In each case, he either has made up his mind or will be forced to do so soon:

Cuba: The tough State Dept. white paper issued this week means the U.S. has abandoned hope of containing



MACMILLAN of Britain, in talks this week, will get encouragement on disarmament, and perhaps on Communist China.



DE GAULLE of France will be treated with deference when Kennedy goes to Paris to confer with him at the end of May.

Castro with economic and diplomatic pressures. The U.S. now will give full backing to insurrectionist forces in Cuba, with the aim of toppling Castro. This could even involve U.S. military intervention if a popular insurrection seemed on the verge of being crushed as in Hungary.

Laos: The U.S. aim still is a peaceful solution, even at the risk of installing a neutralist government vulnerable to Communist political pressures.

At midweek, Moscow seemed about ready to agree on the vital question of a ceasefire. Meanwhile, the Communist rebel offensive has been gaining further grounds—suggesting that Kennedy and Macmillan will have a tough time this week in planning a satisfactory negotiating position.

South Vietnam: Communist guerrilla operations against the Diem regime have grown to actions in battalion strength against major towns, particularly in the south. An attempt at a coup d'état could come any day. The U.S. and SEATO may be asked for military help at an early stage.

The Congo: The U.S. will back the U.N. all the way in the Congo, even if this creates resentment in Europe. Britain and France are known to be dubious about the U.N. decision to throw seasoned Indian troops across the line of advance of Katanga Pres. Moïse Tshombe's offensive against Kivu Province, which is controlled by Antoine Gizenga's pro-Communist regime; the Belgians are furious about it. But Washington believes tough U.N. action against all kinds of military adventure is the only hope of pacifying the Congo.

Berlin: Kennedy won't yield an inch to any new Communist pressures to force the Allies out. He will not repeat the past Administration's tentative offer to cut back Allied troop strength there. His reasoning: Since these forces have only symbolic value, there is no profit in tarnishing the symbol without getting anything positive in exchange.

Algeria: The U.S. is intervening openly for the first time in the intricate diplomatic sparring for a settlement between Paris and the Algerian provisional government. It is pressing the French to drop the idea of negotiations with a rival nationalist faction. In the past, the French have reacted violently to any suggestion of outside interference in Algeria.

II. The New Pattern

All this adds up to a picture of new toughness and decisiveness in the conduct of foreign affairs. At the same time, Kennedy's willingness to accept regimes in Asia and Africa that are politically as well as militarily neutral, to encourage social reform and politically independent attitudes in Latin America, to make concessions to Moscow in the Geneva test ban talks reflects what Kennedy's aides regard as a flexible realism.

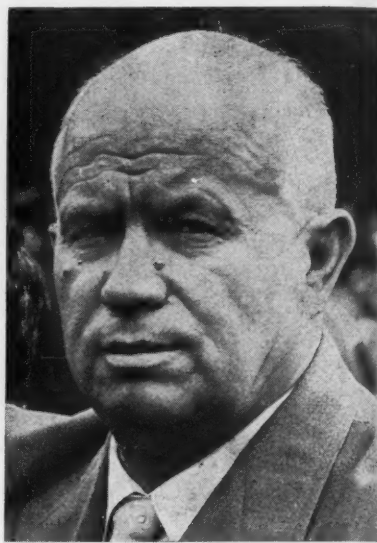
This approach runs through Kennedy's thinking not only on the urgent cold war crises that are at the top of his agenda this week but also on issues that divide the Atlantic Alliance.

• **Macmillan Talks—Take,** for example, the major matters being discussed by Kennedy and Macmillan this week.

Macmillan may differ with Kennedy's strong line on Berlin. Pacifist sentiment is growing in vulnerable Britain, and there is little enthusiasm for rushing to the aid of the Germans.



CASTRO of Cuba has been given what amounts to a last chance to break with Reds, else U.S. will bless rebellion.



KHRUSHCHEV of Russia will be told U.S. will meet him halfway on disarmament, but he won't be appeased elsewhere.

Macmillan himself took the lead in seeking compromises with Khrushchev during the last Berlin crisis.

However, Kennedy's ideas for a broad U.S. disarmament package to present to the Russians at next summer's general disarmament negotiations would be to Macmillan's taste.

Macmillan and Kennedy also planned to discuss Red China, on which the two allies have been at odds ever since Britain recognized the Communist regime while the U.S. adopted a policy of rigid hostility toward Peking.

Kennedy is now toying with the idea of suggesting that one or more governments that recognize Communist China, perhaps including Britain, should propose to the Chinese that they accept a "two Chinas" approach under

which both governments would be represented in the U.N. There is no expectation that Peking would buy this but, rather, that it would provoke an intransigent reaction from Peking—firming world political opinion for a tough U.S. policy aimed at containing Chinese expansion.

• **Economic Issues**—When it comes to economic policy, Kennedy is ready to discuss proposals for strengthening the International Monetary Fund and for assurances that U.S. trade policy will remain liberal. Both points are of crucial interest to Britain.

However, the President showed no signs this week of shifting U.S. support away from the European Economic Community and toward British proposals for a merger of EEC with the European Free Trade Assn.

III. In Meetings to Come

A similar pattern is likely to appear in Kennedy's upcoming meetings with Adenauer and de Gaulle.

Adenauer very probably will be cool to U.S. pressure for a big, government-supported German aid program to underdeveloped areas. And he may be dubious about suggestions for strengthening the IMF. But he certainly will be reassured by a firm U.S. stand on Berlin and by strong support for the Common Market.

De Gaulle, for his part, is bound to have a whole list of grievances to take up with the President. These will range from suspicions that the U.S. is trying to supplant European influence in Africa to coolness toward U.S. policy in Southeast Asia. Then de Gaulle's belief that only national military forces have the spirit to defend Europe is in conflict with the American conviction that, in the nuclear age, tightly integrated NATO forces are indispensable.

• **French Pride**—Even more important are the differences over de Gaulle's program to make France an independent nuclear power. Kennedy is adamantly opposed to continued French nuclear testing and an independent French nuclear force.

But again Kennedy hopes to smooth over these differences. He hopes that his deference to France, reflected in his decision to fly to Paris to see de Gaulle, may help.

• **Kennedy Doctrine**—Back in this hemisphere, Kennedy's fateful decision to give all-out support to Cuban efforts to topple Castro clearly involves calculated risks in Latin America, where there is a deep fear of U.S. intervention—particularly forcible intervention.

For this reason the decision was not and will not be announced publicly. This week's white paper—written under Kennedy's personal supervision—carefully veiled this policy decision.

Latin American diplomats, however, had little difficulty in reading between the lines. Behind the U.S. decision is the conviction that as long as Castro is free to spread Communism and political unrest in the hemisphere, the

U.S. will find it difficult to win political support there for what the white paper calls "the authentic and autonomous revolution of the Americas"—the revolution against tyranny, poverty, and social injustice.

Aid Near for Depressed Areas

Legislation providing \$394-million to attract new industry is expected to clear the White House soon.

A \$394-million depressed areas bill to help communities with chronic unemployment attract new industry is expected to go to the White House for signature by mid-April.

The Senate and House have each passed bills with only one major difference. The Senate version would finance the program directly through the Treasury, while the House version calls for annual appropriations by Congress. A conference to iron out the difference probably will be called next week.

Congressional sources anticipate that the first loans can begin flowing to communities that have economic development plans ready to go within a couple of months after Pres. Kennedy signs the bill and an administrator is chosen.

This is the third time Congress has approved such a program, but in 1958 and 1960 the bills were vetoed by Eisenhower. This year, efforts by the GOP-Southern Democrat coalition to substitute a more modest proposal were soundly defeated. The bill passed the Senate 63 to 27 and the House 250 to 167.

• **Purpose**—The program is not expected to be much help to hard-core depressed areas such as the coal towns of West Virginia. It is designed to provide "seed money" to marginal and declining areas that need only relatively modest help to make an economic comeback. The requirement that federal loans can cover only 65% of a project, with the rest coming from local and state government or private sources, is meant to assure that the investment is a good economic risk.

Responsibility for the program is vested in the Secretary of Commerce with an administrator appointed by the President and confirmed by the Senate.

Only areas of continuing high unemployment are eligible for aid. The rate of unemployment, excluding seasonal or temporary, basically must be 6% or more and must have exceeded the national average by 50% for three of the four preceding years. A formula allows some variation.

Currently, 103 labor market areas (20 major ones and 83 smaller ones) are eligible, plus an undetermined number of rural depressed areas. The rural areas

will be chosen from among 500 counties (mostly in the South, Kentucky, West Virginia, and Oklahoma) that have continuing high unemployment or "underemployment."

• **The Provisions**—The program provides:

- \$100-million in revolving loans for urban areas for building or remodeling industrial plants, acquisition and development of land for industrial parks, and in some cases for purchase of machinery. These would be 25-year loans (with a possible 10-year extension) at a current rate of 4½%.

- \$100-million for similar purposes in rural areas.

- \$100-million in loans for public facilities—water, sewers, treatment plants—necessary to attract industry. These would be 40-year loans (possible 10-year extension) covering the entire cost of the project at 3.5% interest.

- \$75-million in grants, up to 65% of the cost of a project, for communities that cannot manage the loans.

- \$4.5-million for retraining workers and \$10-million in subsistence payments for 16 weeks of training.

- \$4.5-million to help communities draw up economic development plans.

The program also allows urban renewal funds to be used for redeveloping blighted business areas and industrial sites as a way of bolstering the tax base. Until now urban renewal funds have been limited to housing.

- **Local Planning**—The area seeking aid must have some kind of local redevelopment commission or nonprofit corporation that submits to the Secretary of Commerce a plan for over-all economic development. If the plan gives promise of promoting a healthy local economy, loans and grants are then made to the commission, which in turn makes arrangements with private companies for establishing new plants.

One of the main worries of both opponents and proponents was that a community would use federally supported loans to "pirate" an industrial plant away from areas that could not offer such blandishments. The bill prohibits loans from being used to induce a plant to transfer from one area to another.



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Just About Ready For the Countdown

Some morning in the next few weeks, a U.S. astronaut will be bolted into a space suit in Hangar S at Cape Canaveral, driven out to a NASA launch stand, hoisted up its gantry by elevator, and sealed into a Mercury capsule poised atop a Redstone rocket.

For the next two hours, while the Redstone rocket is fueled with LOX (liquid oxygen) and alcohol, the first U.S. space explorer will be a busy man. He'll be running through a long list of checks and communications tests with the Canaveral control tower.

Meanwhile, the other six astronauts who have been in training for the past two years will be deployed along his 290-mile flight path—in chase planes, in the missile blockhouse, on the pickup ship, and at Canaveral's communications center.

• **From the Word "Go"**—Before the Redstone can be fired from the blockhouse, the astronaut must push a "pilot ready switch." Until this shows green on a panel board above the firing officer's desk, the rocket is dead. Then, according to flight plan, for 16 minutes after firing, the astronaut will experience what no man has ever gone through before—a ballistic flight some 115 miles above the earth's surface, including five or six minutes of complete weightlessness.

Three men—Lt. Col. John H. Glenn, Jr. (USMC), Cmdr. Alan B. Shepard, Jr. (USN), and Capt. Virgil Grissom (USAF)—have been selected from the

original seven astronauts to make the epochal first flight. Unofficial reports say Glenn (picture, right) is an odds-on choice to pull the assignment. NASA, however, won't announce its final selection until six or eight hours before blastoff.

In the final three to four days before the launch date, all three finalists will move into Hangar S at the Cape. Each man will have the opportunity for final training in any special area he desires. Their families (for whom motel accommodations are being held) will be on hand. The Navy will clear all shipping and pleasure craft from the area.

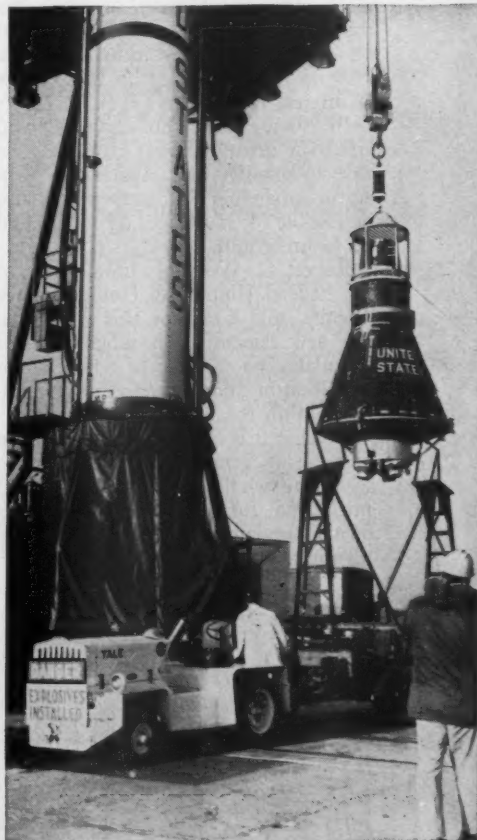
• **The Pickup**—After impact, the Mercury capsule, built by McDonnell Aircraft Corp., will be fished out of the Atlantic by a helicopter, operating off an aircraft carrier. An initial examination of the astronaut will be made in the carrier's sickbay during the 12-hour trip to Grand Bahama Island. There, he'll undergo a day or two of physical and mental examinations before being flown to Washington and presented to the world on radio and television.

• **One More Check**—One more Little Joe test firing still has to be run off from Wallops Island. This, the seventh in a series, is a final last-minute performance test on the Mercury capsule and escape system. In the meantime, Glenn, Shepard, and Grissom are being flown back to the Navy's big centrifuge facility at Johnsville, Pa., for three or four more days of acceleration conditioning.



THE MAN, if guesses prove correct, will be Marine Lt. Col. John H. Glenn, Jr., at 39 the oldest of the astronauts. He's a qualified jet pilot, too.

THE CAPSULE is lined with instruments facing the astronaut. During his flight of about 16 minutes, and the hours before and after, he has 165 dials, control switches, and warning lights to watch. They monitor every kind of system in the capsule. Color coding by groups of instruments helps him instantly classify every reading. His left hand lies on the abort-and-escape handle; if the booster malfunctions during launching, he can blast his capsule safely away. His right hand grasps a control stick by which he can keep the capsule in any desired position during flight; small jets on the outside turn the vehicle. The console on the extreme left contains emergency switches, and the next group to the right contains switches (with big rings he can grasp accurately with gloved hand) to select either automatic or manual operation of the stabilization system. It also has switches for the reaction control system that tilts or turns the capsule, and controls for pressurization of the cabin. The next section to the right contains sequence lights that indicate the functioning of all systems in the capsule, and manual switches that back up the automatic controls. In the center are instruments that show the capsule's relation to the earth at all times: a satellite clock that times each phase of flight, an earth-path indicator that keeps track of location, a periscope showing all four horizons of the earth and part of the sky, a magnifying lens that can show an enlarged but narrow vertical view. Next on the right are instruments controlling the environment of the capsule and the astronaut's space suit, and the control panel for electric power and communications. At extreme right are warning lights and audible signals for emergencies in case of any malfunction; a survival kit is at the astronaut's left shoulder.



THE MISSION is to prove out technique and equipment before an attempt is made, with an Atlas booster, to put a man into earth orbit.

New Spur for Mass Remodeling

● Kennedy housing officials propose brand-new type of government-insured loan to refurbish existing homes.

● Program is aimed at deteriorating city areas, to help save them and avoid "bulldozer" kind of urban renewal.

● Lenders view idea cautiously, but tend to favor a tryout, as Congress hearings on measure begin.

A new approach to problems of urban housing is being made by the Kennedy Administration and its housing officials. It is embodied in a proposal that is getting rush treatment this week from the Senate Banking Committee—legislation that would make a brand-new kind of government-insured housing loan available for the rehabilitation of city and suburban homes.

The new lending program is designed to tap the mortgage money market, where lenders are familiar with FHA-insured mortgages, for loans to refurbish existing homes. A homeowner in an urban renewal area who meets the qualifications—even if his property is already mortgaged—would be eligible for FHA insurance on a loan up to \$10,000 for up to 25 years at interest rates up to 6%.

In some cases, homeowners who aren't in urban renewal areas may be able to qualify, too. Apartment owners in urban renewal areas would also be eligible for mortgages up to \$10,000 per housing unit.

Robert C. Weaver, administrator of the Federal Housing & Home Finance Agency, told Congress this week that the new rehabilitation program could stimulate "an increase of \$4-billion or \$5-billion or more in construction business within the next five years."

Because it is brand-new, the program has already generated confusion as to what the whole idea is, and what it might do for the individual homeowner, the landlord, the urban renewal planners, and the lenders.

I. What It Is Not

The program is not an extension of the existing FHA home improvement loan program under Title I of the Housing Act. This provides FHA insurance on home improvement loans up to \$3,500 for up to five years at rates up to 9%—and it has gotten somewhat of a bad name because of high pressure salesmanship and shoddy work on remodeled kitchens, one-room additions, basement-into-recreation room projects, and the like.

The new rehabilitation program is

another breed entirely. It will get the same kind of supervision and inspection—before, during, and after construction—that FHA now gives housing built under its regular insured-mortgage program.

• **No Bulldozers**—The new rehabilitation loan is supposed to tap the market for major face-lifting and modernization of houses in good but older neighborhoods, in deteriorating "gray areas," or in outright slums.

The theory is that the government should no longer stress stimulation of new developments still farther out from the central cities—though such programs are still available and are likely to remain the biggest thing in government-insured housing for some years.

Housing officials want to take advantage of several new trends in housing demand—the growing trend toward redoing old houses, for instance, and the readiness of some older couples and other families, for one reason or another, to move back to town from the suburbs. They want to get away from what Weaver calls the "bulldozer" approach to urban renewal and slum clearance.

This doesn't mean putting the bulldozer out to pasture, but officials hope it will help save areas that now keep on deteriorating for lack of this kind of financing.

II. What It Is

The main requirements to be fulfilled for this new type of government-insured rehabilitation loan are these:

• In most cases, there must be an approved neighborhood or urban renewal plan for improving the character of the neighborhood, and the rehabilitation of the house must be consistent with this over-all plan. Industry reaction indicates that encouragement of this kind of civic planning might be the greatest benefit the new program will bring to homeowners.

• Whether the house is in a central city or suburb, the insured loan may not exceed the cost of work done.

• To get around the problem of

the market value of homes as part of the basis for approving loans, the proposed legislation gives officials more flexibility. Real estate appraisers estimate only what a house might bring on today's market. The new provisions would allow FHA officials to use a higher figure based on what the property would be worth after urban renewal goes through.

• **Tools**—All this sounds desirable. The question is: Will it work?

The new housing officials—Weaver, Commissioner William L. Slayton of the Urban Renewal Administration, and Commissioner Neal J. Hardy of the Federal Housing Administration—think they have in their kit what it takes to get the program off to a start. That is, they think they will have when Congress passes the Housing Act of 1961. As hearings got under way this week, the prospect was that, in the absence of any strong opposition, the rehabilitation loan program would go through much as Kennedy wants it.

By the time the law is passed, officials say they will know what the demand is, the insurance program will be ready, and the Federal National Mortgage Assn. will be standing by to buy up loans in case the first lenders decide they want to unload.

The new legislation asks for another \$750-million for Fanny Mae, to buy up loans (and mortgages) that private lenders won't buy or want to sell after they've held them a while. Not all of this will go into the new rehabilitation program, of course—but enough to get it off the ground quickly.

III. First Targets

Out of the 800 cities that have urban renewal programs in one stage or another, officials are already focusing, in their rehabilitation loan plans, on about 70. These are the cities that have "conservation areas"—residential areas that can be renovated—already marked out. In these blocks, according to Weaver, some 82,650 structures are prime prospects for such loans.

Among the cities that are particularly ripe are: New Haven, Baltimore, Chicago, Cincinnati, Cleveland, Detroit, Los Angeles. Many relatively small and medium-sized cities are also on the list: Cambridge, Mass.; Portland, Me.; Pasaic, N. J.; Clarksville, Tenn.; Augusta, Ga.; Kalamazoo, Mich.; Waterloo, Iowa; Little Rock, Ark.; St. Charles, Mo.; Port Arthur, Tex.; Junction City, Kan.; Reno, Nev.; Oakland, Calif.; Seattle, Wash., and others.

Some of these already have urban renewal projects going, but without the

financing for "conservation area" rehabilitation; and this part of the rebuilding goes pretty slowly.

• **Precedent**—Urban Renewal Commissioner Slayton cites the rehabilitation job on the 80-acre stockyards area of Little Rock as an example of the kind of area where the new program can fit in.

This area—a real slum with outdoor privies—was the kind you might think would have to be bulldozed to the ground. But the Little Rock housing agency wanted spot clearance. The result: new streets, playgrounds, drainage—and 66 buildings retained out of 301. Financing of their rehabilitation was difficult; some was done through FHA-insured mortgages. The houses now range from \$9,000 to \$22,000. The area is still 90% Negro.

Total private spending for new housing and rehabilitation was about \$1-million. Total real estate assessment is now six and one-half times the figure before work started in 1958, even though one-fifth of the land was switched from residential use.

IV. Owners and Lenders

The individual homeowner in an older suburb—one, say, who wants a big, 50-year-old house on a big lot—will have a whack at the \$10,000, 25-year insured rehabilitation loan, too. But he won't have all the advantages he would have in connection with a planned program for neighborhood rehabilitation in a central city.

Mostly, such an individual loan depends on all the things that make a banker decide whether you're a good risk for the amount of money you want for your purpose—how much you're mortgaged, the value of the property, the character of the neighborhood. If these are right, you may find a lender.

But your lender wouldn't be able to sell to Fanny Mae under the special assistance program. And he wouldn't be paid in cash if he has to go to the government to collect. If in a default he comes out \$2,000 short, for instance, the government would pay him off in FHA debentures, which carry relatively low interest rates and sell at a discount—not so attractive as cash.

• **Lenders' Views**—At the outset, spokesmen for lenders are viewing the whole new loan idea with caution. But they tend to favor its enactment to see how it works—particularly since, with Fanny Mae backing on the "conservation area" loans, they can bail out without getting really hurt.

Some savings and loan officials already are moderately enthusiastic about this new market. Mortgage bankers and insurance companies seem a bit more wary.

The mayors, architects, city planners,

home builders, labor unions are going all out.

• **Tricky Questions**—But there are some tricky questions. What about security for the loan? While the legislation would permit housing officials to make the loan a second mortgage, the idea is not to have it secured. Officials argue that even on a mortgage, lenders look primarily to the character and over-all position of the borrower.



ROGER BLOUGH new industry chairman.

What may turn out to be the worst bottleneck, though, is the unwillingness of many owners of rental housing in slum or deteriorating areas to take on new debt to improve their property. All that cities can actually require is observance of minimum safety and sanitation standards. Because of this, the outlook is definitely for a slow start—but with plenty of fanfare and hulla-balloo over early programs.



LUTHER HODGES gets his way.

BAC Toes Hodges' Mark

Business Advisory Council agrees to operational changes—including new powers for Commerce Secretary.

At a brief meeting in Washington this week, members of the Business Advisory Council, the committee of blue chip industrialists that has long operated under the auspices of the Commerce Dept., accepted some unprecedented organizational changes demanded by Commerce Secv. Luther H. Hodges (BW—Apr. 1 '61, p23):

• Hodges will be general chairman of BAC, with authority over the new industry chairman, Roger M. Blough of U.S. Steel Corp.

• Hodges will select new members of the council and can, if he chooses, ignore BAC's recommendations.

• All council meetings at which government officials make formal presentations will be open to the press.

• Hodges will have the final say on meeting dates, locations, and agendas, and government representatives will be present at all official BAC meetings.

• Active membership in the council will be increased from 60 to 65, with several representatives of small business to be added.

• **New Controls**—Never before has the

council operated under such strictures. Previous Commerce Secretaries exercised little power over the corporate executives. The council set up its own agenda, chose its own officers and new members, and banned newsmen from meetings.

BAC now meets almost all of the Justice Dept.'s criteria for government advisory groups, but one point—a government official presiding at all sessions, including subcommittee meetings—still must be resolved.

• **Informal Operations**—Although the organizational changes are severe, BAC members think they can continue their informal operations with the new controls. That the meetings probably will continue along fairly loose lines was indicated by Hodges: "There will be times when I may just hand over the gavel to Mr. Blough and say, 'Here, you run the meeting.'"

Several members said that they had feared the government might insist that all meetings be open. So long as members can speak freely at closed business meetings, BAC can continue, they said.

How Defense Shifts Will Be Felt

When Pres. Kennedy laid out his military budget last week, he also reshaped the way defense monies will be spent. The economic toll on at least 52 communities will be significant—some 9,000 civilian jobs will be lost over a period of time in a Pentagon move to shut down unnecessary military posts. But for corporations involved in the switch of defense contracts, the impact will be more on future programing than on immediate sales and earnings (table).

The new \$43.8-billion defense budget set down definite principles, as well as charting new directions. Kennedy and Defense Secy. McNamara called for increased spending for procurement and research of conventional weapons to be used in brushfire war situations, and a shift from first-strike to second-strike weapons—less costly and less vulnerable. That puts the emphasis on Polaris and Minuteman, at the expense of the Titan missile. The Administration also called for speeding up the development of early-warning satellites and other space projects (BW—Apr. 1'60, p22).

• **Reshuffled Cards**—Congress, of course, still has the final say on the defense budget. But if Congress goes along, this means a massive reshuffling of contracts. For many companies, though, it will mean accepting a new contract with one hand, while surrendering a lost contract with the other. There will be disruptions, but the loss or gain of revenue will be slight in most cases.

Lockheed Aircraft Corp., for example, lost out in the cutback in the B-70, since it builds the upper forward fuselage section. Its Missiles & Space Div. lost out, too, in the cancellation of the proposed Polaris installation on the Navy cruiser Long Beach. But Lockheed will gain by the addition of new Polaris missiles—and the Georgia Div. just obtained a \$1-billion contract for the jet cargo plane, the C-141. Lockheed also has a contract for an extended-range version of the C-130 turboprop cargo transport, which could be used in limited-war situations.

Violent shocks such as this are not new in defense contracting; they are almost a way of life to the companies involved. They are only a part of the woes faced by some—in the aircraft industry, for example (page 43). And Kennedy's new budget gives no sign of any basic shift in the long view of what weapons the U.S. will need ten years or so ahead.

• **Changed Emphasis**—But Kennedy's program—besides its new emphasis on limited-war and second-strike weapons—suggests another important new atti-

These contractors will get new business . . .

COMPANY	PROGRAM	IMPACT
NORTH AMERICAN AVIATION	Polaris—inertial guidance system; Minuteman—guidance, flight control; Snap	no effect on sales and earnings this year.
LOCKHEED	Polaris; space projects—Samos, Midas, Discoverer; new transport planes	losses almost balance out new business.
DOUGLAS	Skybolt	slight; additional funds to R&D program were expected.
NORTHROP	Polaris—checkout equipment; Skybolt—guidance system; Hawk missile	funds for each program increased.
BOEING	Dyna-Soar; Minuteman; new transport planes	Dyna-Soar's share of increased space spending not certain. Boeing will push its newly completed design to get the \$45-million authorized for new tactical fighter.
MARTIN	Dyna-Soar; Snap; Pershing	indications of moderate increase in funds.
REPUBLIC	F-105 modification	\$24.6-million authorized, but present output will remain unchanged.

These contractors will lose some business . . .

COMPANY	PROGRAM	IMPACT
NORTH AMERICAN AVIATION	B-70 cutback	1,200 persons will be laid off initially.
LOCKHEED	B-70 cutback; cancellation of Polaris installation on cruiser; Aircraft Nuclear Propulsion	offset by new business gained.
DOUGLAS	Eagle missile; Nike Zeus	Douglas will be hit by failure to get production contract on Nike Zeus.
MARTIN	Titan II cutback	does not change work presently planned, but about 20 Titan IIs will be cut out.
GENERAL ELECTRIC	Aircraft Nuclear Propulsion	just about wipes out ANP Dept. GE's share of contract was worth \$70-million a year.
GENERAL DYNAMICS	B-70 cutback; minor ANP research	losses are small; some new business will be gained on Polaris.
GRUMMAN	Eagle	subcontract accounted for about \$7-million in sales.
UNITED AIRCRAFT's PRATT & WHITNEY DIV.	Aircraft Nuclear Propulsion	cancellation will mean an 800-man cutback, but P&W has contract for engines in new cargo transport.

tude: The Defense Dept. is now out to get faster delivery on items already in the works. Some projects in the "fuzzy" stage are being put on the back stove. This explains the cutback in the B-70 and the cancellation of the atomic bomber program.

This means some companies may have to watch their step in expansion. Martin Co., for one, which has put a good deal of money into facilities during the past two years, says it won't be making any substantial plant adjustments in the near future.

It also suggests—for the moment, anyhow—a slight de-emphasis on the research part of R&D on some projects. A General Electric official concedes "there are some signs that the emphasis now is to develop things we already have."

• **Warning**—A Martin Co. executive warns that if the de-emphasis on R&D is followed through, defense contractors will be punished severely. For it is here that companies pool their scientific and engineering talent to develop not only contracted projects, but, as by-products, other military and commercial ideas.

North American Aviation Inc., as an example, hoped to use the B-70 as a forerunner to the supersonic transport. Perhaps the four stripped-down models the company will make will tell it what it has to know to build a supersonic jet airliner. But certainly a more expanded program would have given it a finer economic and technical edge.

• **Impact**—While these shifts in attitude may force companies to readjust long-range plans, the immediate impact, in most cases, will not be great.

North American will have to lay off 1,200 employees because of the B-70 cutback, but it reports that sales and earnings won't be off from earlier predictions. Martin, which will lose some future Titan II production, says: "This wasn't counted in our backlog"; the company also hopes to gain new funds for development of the Dyna-Soar space glider. General Dynamics Corp. says the short-term impact will be minor. Sperry Rand Corp. thinks that on balance it has come out on the plus side, but doesn't know yet what the changes will do to earnings.

Some of the smaller losers aren't much concerned, either. Grumman Aircraft Engineering Corp., a subcontractor on the canceled Navy Eagle missile project, calls the \$7-million loss in sales relatively insignificant, though it will hurt Grumman's research in missiles.

• **Some Hard Hit**—However, a few companies will be hit hard. Douglas Aircraft Co. will suffer chiefly because no production contract was let on the Nike Zeus, for the third straight year.

The addition of \$50-million to

Douglas' Skybolt program, moreover, was expected; and for Douglas, it is a relatively small contract.

The cancellation of the Aircraft Nuclear Propulsion program will be a hard blow to United Aircraft's Pratt & Whitney Aircraft Div. and General Electric. General Dynamics' Convair Div. and Lockheed also are affected. Pratt & Whitney says it will have to lay off about 800 men. According to a GE official, GE's ANP Dept. will be virtually wiped out—3,500 will be thrown out of work in Cincinnati.

• **Others Gain**—A few companies, though, will benefit especially from Kennedy's budget. Republic Aviation Corp. has been given \$25-million to modify its F-105 tactical fighter. Another \$45-million has been allocated for a new tactical fighter; many companies will bid on this—including Boeing Airplane Co., which has just completed a new design.

Boeing also gets a lift from increased budget requests for the Minuteman. Subcontractors that will benefit are Beech, Thiokol, Aerojet-General, Hercules, Avco, and NAA's Autonetics Div. But anticipated contracts for ACF Industries, Inc., for production of railway cars to mount the missiles have been deferred for at least a year. Kennedy has decided that fixed sites are more desirable now than roving bases.

General Dynamics' Electric Boat Div. and Newport News Shipbuilding & Dry Dock Co. will get the biggest

boost out of increased spending for Polaris submarines. GE and Westinghouse are the likeliest nuclear reactor suppliers.

• **Job Losses**—Shifts in contracts also will mean shifts in manpower, but there probably will only be half as many jobs lost in this way as there will be from the Pentagon's move to shut or reduce operations in 52 military posts.

Of the 52 bases affected, half have been idle or running at a very low rate of activity. Still, the curtailments will exact their toll on a number of cities where the newly unemployed will add to economic or employment woes. A Defense Dept. official puts his finger on these troublesome areas where installations will be closed: Metuchen, N. J.; Toledo, Ohio; Benicia, Calif.; Presque Isle, Me.; Del Rio, Tex.; Green Cove Springs, Fla.; Tongue Point, Ore.; New Orleans, La.; and Olathe, Kan.

To soften the impact, the Defense Dept. is extending the shutdowns over a 12- to 36-month period. Only 20% of the curtailments will actually occur during the next fiscal year. Efforts will be made to cushion the blow in the cities most severely hurt. At Benicia, Calif., for example, where 1,700 civilian workers will be phased out over three years, the Army, among other things, will pay relocation costs for civilians shifting to Army ordnance posts elsewhere.

Push for Biggest Atom Smasher

Congress gets Kennedy request for funds to start work this year on two-mile Stanford linear accelerator.

Construction of the biggest atom smasher of all—the giant, \$114-million Stanford University linear accelerator—is moving closer under the budget step-up planned by the Administration. Congress now has before it a request from Pres. Kennedy for \$26-million to start work this year on the two-mile-long accelerator.

When finished in 1968, the electron high energy machine will provide a 10 to 20 BEV (billion electron volt) beam, the highest electron ray in the world.

In the accelerator, the biggest and most expensive piece of lab equipment ever planned in the U.S., scientists will be able to push electrons up to speeds very close to the speed of light (BW—May 23 '59, p32). Hurlled at this speed against target atoms, the electrons (ultimately to carry more than 45-billion volts of electricity) should be able to penetrate the atom's core.

First hurdle in Congress for the \$26-million appropriation is approval by the Joint Committee on Atomic Energy.

• **Reactors**—The President's \$30.1-million over-all increase in the Atomic Energy Commission budget for next year also includes a proposal to convert a plutonium production reactor at Hanford, Wash., to a 760-megawatt dual-purpose electric power facility. This experiment may be a crucial one for the atom's future in the power industry.

The reactor, now under construction, is scheduled for completion in October, 1962. Kennedy's plan is to have it operate for two years as a production reactor, then convert it to a dual-purpose power-production facility. If the experiment succeeds it will open the way to power generation at considerably lower costs than any that could be achieved by a single-purpose atomic reactor.

Other AEC construction starts recommended by Kennedy are a second Antarctic reactor, \$6-million, and a maritime beryllium oxide reactor experiment (BORE), at the National Reactor Test Station, Idaho, \$7-million.

In Business

. . .

Airline Merger of United and Capital Gets Unenthusiastic Approval of CAB

The Civil Aeronautics Board this week formally approved the merger of United Air Lines and debt-ridden Capital Airlines with the pained expression of a man having his arm twisted and an implied vow that it won't be forced into the same situation again.

The board said it was allowing United to absorb Capital because it had "no practicable alternative" since Capital otherwise would have collapsed. But CAB members acknowledged that the merger further unbalances the nation's air route structure, making United the biggest domestic airline (supplanting American), with monopoly position in some important areas. Chmn. Allan S. Boyd said United could not expect to keep this monopoly position "ad infinitum."

National Airlines has asked CAB permission to sell to the public the 400,000 shares of Pan American World Airways that it holds.

. . .

Competing Railroads Join Up to Buy Barge Line for Pittsburgh Coal Link

Two hotly competitive railroads whose specialty is carrying metallurgical coal have contracted to buy a barge line, Island Creek Fuel & Transportation Co., wholly owned subsidiary of Island Creek Coal Co. The railroads are the Chesapeake & Ohio Ry. and the Norfolk & Western Ry. (page 32).

If the Interstate Commerce Commission approves the sale, which will cost the roads approximately \$8-million, the two will have their first direct access to the steel mills in the Pittsburgh area. Currently most of this coal is turned over to connecting railroads.

In a previous case in which the Illinois Central RR and Southern Pacific Co. sought to buy a Mississippi River barge line, John I. Hay Co., a commission examiner recommended denial of the application unless seven conditions restraining the railroads were met.

. . .

Treasury Orders Comptroller Not to O.K. Bank Mergers Opposed by Antitrusters

An incipient intramural squabble in the Kennedy Administration was headed off this week when the Comptroller of the Currency was instructed—for now, at least—not to approve national bank mergers to which the Justice Dept.'s antitrusters object. The Comptroller's office, now headed by Ray M. Gidney, is nominally independent but is subject to the general policy direction of Treasury Secy. Douglas Dillon.

The order represents an agreement between Dillon and Atty. Gen. Robert F. Kennedy. It came after the Justice Dept. had filed three suits in rapid succession against bank mergers that had already been approved either by the Comptroller or the Federal Reserve Board (BW—Mar. 4 '61, p28).

The Dillon-Kennedy entente means, at the least, that bankers with merger plans may face delays in getting federal approval. At most, it could mean formulation of a new federal policy hostile to bank mergers.

. . .

ICC Loan Authority Extended; Agency Frowns on Bankruptcy for New Haven

Congress has extended for another 27 months the authority of the Interstate Commerce Commission to guarantee repayment of loans to railroads. The program was to have expired Mar. 31. It has permitted railroads, which had become poor credit risks because of negligible earnings or deficit operations, to borrow money on easier terms for modernization and maintenance programs and to stave off emergencies.

One of the chief beneficiaries of the emergency part of the loan guarantee plan, the New York, New Haven & Hartford RR, was described by ICC this week as "still a vital artery of transportation" that must not be allowed to collapse. The purpose of the commission's report was to squelch speculation that it would recommend bankruptcy as the solution to the line's problems. A New England trade association and a commission lawyer had previously declared that this would be a way out of the New Haven's difficulties.

. . .

Mohole Drillers Find "Second Layer" Of Ocean Floor Consists of Basalt

Drilling in 12,000 ft. of water near Guadalupe Island, off the west coast of Mexico, the research ship Cuss I has positively identified the so-called "second layer" of the ocean floor as basalt—a hard rock formed by solidification of molten material within the earth. This layer was reached 560 ft. below the ocean floor. The discovery may be important for industry; offshore oil drilling, for example, is sure to benefit from this kind of information.

The National Academy of Sciences and the National Science Foundation—co-backers of the Mohole project—point out that drilling, in this particular hole, had been going on for only two days when the find was made. New equipment and techniques used in the project all seem to be operating well.

After tests are completed, a new rig will be built for the actual attempt to drill through the earth's crust to the Moho (the Mohorovicic Discontinuity) (BW—Dec. 5 '59, p151). Beneath the Moho (some 33,000 ft. below the water's surface at the closest point) lies the earth's mantle and the answer to many questions about the earth's interior. The complete project, scientists estimate, will cost about \$15-million.

The New Bulletin 709

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Red Signals on Rail Mergers

The get-together trend is periled by family squabbles of the roads, and ICC's need to preserve lines that are financially weak but essential to the public interest.

The path to railroad mergers isn't going to be so smooth as many in the industry had hoped only a month or two ago. Some of the bigger proposals are coming before the Interstate Commerce Commission now, and squabbles that conceivably could wreck the movement are breaking out among the railroads.

The main arguments arise over the question that most concerns the commission: "Where does the public interest lie?" The trouble is that a great many managements, shipper groups, security holders, and labor unions are positive they know the answer—but they don't agree on what it is.

The railroad industry always has been merger-minded. In the 1920s and 1930s the commission backed plans to reduce the nation's railroad complex to a few huge systems composed of rich and poor lines equitably distributed. However, it never had the power to force rich lines to burden themselves with the losers, so the plan came to nothing.

• **Industry Acts**—Now the industry is going ahead on its own with mergers. With a few exceptions the wealthy roads have sought to merge only with each other. "After all," declared a president of a rich and merger-minded road this week, "I couldn't possibly ask my stockholders to take on a railroad that isn't earning money now, and probably never will."

This means, of course, that at best the weak roads will be left out in the

cold, and at worst that they will be badly squeezed. If several of the merger plans are approved as they now stand, some of the weaker railroads say they would be doomed.

In a sense this is part of the idea: to eliminate the least efficient and economic segment of the industry.

But railroads—being public utilities often considered vital—are not permitted to live under such laissez-faire rules. Inevitably they must knuckle under to stricter regulations laid down in the public interest whose official guardian and interpreter is the commission.

Says an ICC official: "The commission will have to decide each case on its merits, of course, but I wouldn't think knocking off a bunch of weaker railroads would really be in the public interest."

• **Nationalization**—Logic, at least, indicates that if the strongest railroads are allowed to merge among themselves, and if the weaker ones slide into bankruptcy as a result, a new question will be raised: Are some of these weaker railroad essential? If they are, governmental assistance would be required to keep them going. But it seems unlikely that any federal or state government would want to pour money into weak railroads just to keep them alive. So the end product might be nationalization of weak and strong alike.

The alternate extreme to this chain of events would be merger by fiat in line with a preconceived plan that would spread poor railroads among the rich.

James M. Symes, board chairman of the Pennsylvania RR, said what he thought of that idea before a commission examiner last week.

"As you get away from voluntarily agreed-upon mergers and attempt to substitute compulsion," he declared, "you will end up with one of two things, no merger at all or one big merger—nationalization."

• **Compromise**—If both extremes lead to the same place, then, clearly some sort of compromise will have to be worked out. However much the commission is in favor of mergers generally, from now on it may have to tie on protective provisions to maintain existing traffic flows—even though this seemingly negates the entire purpose of the merger. It may disapprove a merger unless a weaker neighbor is included. Or it may have to disapprove some mergers altogether.

To make these decisions, the commission will first have to decide which railroads must be saved. This, incidentally, brings it right back to its thinking in the 1920s—and to the present views of labor.

The Railway Labor Executives Assn., a group made up of the top officers from 23 railroad unions, has announced it will ask Congress for legislation that would require the ICC to stop all merger proceedings now and draw up a master plan. Once it was completed, mergers that did not conform would be barred.

To presidents of the healthy railroads actively engaged in consolidations, the public interest lies in slimming down the industry to a more efficient size so that service can be improved, and costs and rates may be cut.

Shippers, workers, lenders, owners, and managements of railroads slated to be eliminated in this slimming-down process, though, are equally sure it lies elsewhere.

• **Eastern Problem**—This disagreement is cropping up all over the country, but it is particularly acrimonious in the East. The region is also noteworthy because it is here that the nation's second largest railroad in terms of assets, the New York Central RR, is on the outside looking in. Curiously, the Central is now acting like a champion of the small railroads and—of all things—of labor. Says one official, "We're all for mergers, but first let's stop and see where these particular mergers are taking us."

To sort out the complexities of what is going on in the East, it is essential to review the names and numbers of



HEADS OF RAILROADS in merger talks include the N. Y. Central's Alfred E. Perlman (left), the Pennsy's James M. Symes (center) and the Norfolk & Western's S. T. Saunders.



This sidewalk is wired for snow

Nickel alloy electric heating cables in the concrete melt snow as fast as it falls!

No shoveling, no salting, no customer accidents on slippery sidewalks at *this* suburban branch of a Pittsburgh department store. Electric heating cables keep the sidewalks clear of snow and ice during even the worst winter weather.

Saves maintenance costs. In addition to taking the bother out of blizzards, the system eliminates the cost of conventional sidewalk clearance. And further savings are realized because the heating cables—made of 80% Nickel—require no maintenance.


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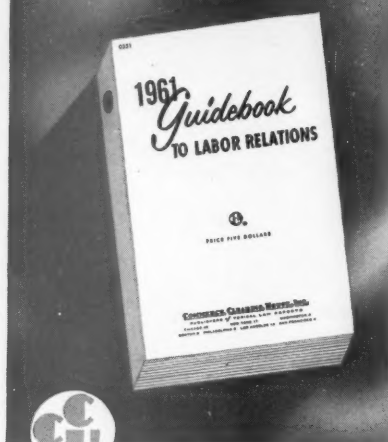


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the participants—preferably with the aid of a sharp pencil.

Heading up one family of railroads is the Chesapeake & Ohio Ry., which has grown to be one of the nation's richest from hauling soft coal. It has asked the ICC for permission to affiliate with the Baltimore & Ohio RR, a company with more miles of track but with smaller earnings. The B&O owns 42.85% of the Western Maryland Ry., and 42.22% of the Reading Co. The Reading, in turn, owns 56.5% of the Central RR Co. of New Jersey. To make matters complicated, the C&O also owns 7.31% of the Western Maryland.

If the entire system is affiliated, it will cover the states of Maryland, Virginia, West Virginia, Pennsylvania, Ohio, Indiana, Illinois, and Michigan.

• **The Opposition**—Depending on your point of view, there are one or two major systems being created in opposition. One of these is headed by the Pennsylvania, which is the nation's largest in terms of assets. This is where the going becomes difficult. The Pennsy owns 86% of the Wabash RR and 26.8% of the Lehigh Valley. The Wabash also owns the Ann Arbor RR, which it now proposes to sell to the Detroit, Toledo & Ironton RR, 81.5% owned by the Pennsy.

The Pennsy wants to acquire the remaining stock in the Lehigh Valley, and it wants to remove from trusteeship the stock it and the Wabash already own. If permission is granted, a system will be created composed of the Pennsy, Lehigh Valley, Ann Arbor, and DT&I. This would cover approximately the same territory as the C&O-B&O combine except in Virginia and West Virginia.

Another would-be family of railroads is headed by the Norfolk & Western Ry., the immediate competitor of the C&O. It has filed for permission to merge with the New York, Chicago & St. Louis RR (Nickel Plate) and to lease the Wabash from the Pennsy and later buy it. Such a system would cover Virginia, Ohio, Indiana, and Illinois, with routes to Detroit and Buffalo, others into Missouri and Iowa.

• **Additional Links**—What scares the competition here is the close tie between the Pennsy and the N&W; 32% of the N&W is owned by the Pennsy. Should the merger proposals of the Pennsylvania and N&W really be two parts of one scheme leading eventually to one giant system, the end result would blanket the Northeast and Middle West—and the competition.

Stuart T. Saunders, president of the N&W, said about its application before the commission, "It absolutely isn't part of any grand scheme. Ours is an independent transaction wholly conceived by us."

The Pennsy's Symes is equally vehem-

ent. The merger of the Pennsylvania, Norfolk & Western, Nickel Plate, Wabash, Lehigh Valley, and the Erie-Lackawanna RR Co. "might eventually be the ultimate solution to the merger question . . . but to inject any such proposal into the picture at this time can only cause years of delay. Let me make it clear immediately that we have only one objective, and that is to try to prevent the bankruptcy of the Lehigh Valley and thereby save our large investment in its stock."

• **Intervention**—His reason for mentioning the Erie-Lackawanna, which last year lost about \$20-million, was that this railroad, itself a product of a recent merger, had asked to intervene in the Pennsy-Lehigh Valley case.

The New York Central, though not in the same unhappy financial straits as the Erie-Lackawanna, also stands to lose traffic should either consolidation be approved "without appropriate provision being made for the interests of the Central."

In the event of such diversion, said the Central in its petition for intervention, "there would be substantial areas that would suffer a deterioration of service, contrary to the public interest."

• **Mutual Help**—Whether or not the Pennsy and N&W mergers are part of the same plan, one thing is evident to the competition. The Norfolk & Western and Pennsylvania will be handing to each other as much traffic as possible.

For example, the Nickel Plate and Wabash both have their Eastern terminals at Buffalo. Freight destined for points farther east will probably be given to the Lehigh Valley, which runs from Buffalo to New York City. But this will be feasible only if the Lehigh Valley can be kept from bankruptcy and if it can be built back up into a high-speed line. Hence the Pennsy's rescue operation.

If the C&O-B&O combine is approved with its several satellite railroads, again traffic will be kept wherever possible within the family. In this case the Central has joined the Chicago & Eastern Illinois RR in asking to intervene before the commission.

• **Central's Position**—The Central's goal is to become part of the C&O-B&O now rather than later, when presumably it would go at distress prices. Failing that, it will probably want to be dealt into the N&W-Nickel Plate merger. If that doesn't work—and neither the C&O nor the N&W want the Central to be a part of their immediate merger plans—the betting is that the Central will try to block all three mergers.

"The Central has a long history of favoring the merger philosophy," says Pres. Alfred E. Perlman. "We still do. Our only qualification is that such mergers be in the public interest." EN

WASHINGTON OUTLOOK

WASHINGTON
BUREAU
APR. 8, 1961



Congress will go back to work next week with a fresh view of Pres. Kennedy and the New Frontier.

Members have been home taking the annual Easter-time soundings.

The general impression they are bringing back to Washington is this: The people like Kennedy and the way he is taking hold, but they are not worked up about his programs.

Except for the Peace Corps, most of what he is asking Congress to do is stirring up neither warm support nor violent opposition.

The issues he is stressing are beginning to have an old-shoe look: minimum wage, school aid, medical help for the aged, housing, farm supports, more social security. These were all argued about for years under Eisenhower and Kennedy campaigned on them.

The people feel "crisised" to death, professionals in both parties agree. They are not responding to the Laos situation or to Kennedy's arguments for federal stimulation of the economy.

Democrats are trying to wake up the party faithful with a "write your congressman" campaign.

The U.S. Chamber of Commerce and other conservative groups are trying the same tactics to arouse opposition.

Unless such efforts kick up an unexpected wave of interest, the prospect as Congress resumes is for a continuing series of close contests on legislation. Key votes can go either way.

If Kennedy goes to the country with direct TV appeals for support this outlook could change. The idea is still being considered.

Kennedy's tendency toward one-man operation of the White House is beginning to concern some of his aides.

They sometimes lose track of what Kennedy is working on. He dives into a problem, uses the telephone to officials in second and third levels of government, quickly gets the information he wants. But he doesn't always keep the staff informed.

Kennedy is overdoing the direct approach to members of Congress, in the opinion of political professionals.

The usual method of bringing White House pressure on lawmakers is to leave it to a regular Congressional liaison staff, with personal calls from the President saved for only a few times each session.

Kennedy reaches for the phone so often that the old magic of "a call from the President" may be losing its effectiveness, supporters fear.

The terrific pace Kennedy sets continues to astonish observers. But he is not immune to fatigue.

Visitors to the White House before the Easter holiday thought he looked tired. So did some reporters at his last press conference.

Richard M. Nixon will make a try for real leadership of the GOP in a series of speeches to be delivered over the next few months.

Since his defeat by Kennedy, Nixon has remained on the sidelines.

WASHINGTON OUTLOOK (Continued)

WASHINGTON
BUREAU
APR. 8, 1961

He has watched the rise of Sen. Barry Goldwater as spokesman for the conservative wing of the party, and the team of Sen. Everett M. Dirksen and Congressman Charles A. Halleck take over as spokesmen for the party's Congressional wing.

Nixon supporters hope his coming speeches will put him back in the center of Republican efforts to win Congressional seats next year and the White House in 1964.

As the party's candidate in 1960, he is its titular leader. His problem is to keep actual leadership from slipping away to men in active political roles while he takes up the practice of law in California.

Both parties see something to cheer about in elections this week.

Republicans are buoyed by the good showing of their Senate candidate in Texas, John Tower, 35-year-old Goldwater-type conservative. Tower was high man in the voting.

He will be opposed in a run-off election by Sen. William A. Blakley who was appointed last January to the seat vacated by Vice-Pres. Lyndon B. Johnson. Blakley, as conservative as Tower, topped a list of 63 Democratic aspirants.

Republicans see the Texas results as a setback for Kennedy and the New Frontier. Either Blakley or Tower will vote with Kennedy's opposition.

Republicans will pour their big names into the fight for Tower in the hope of pulling off a major upset when Tower and Blakley meet June 3. Tower has asked Nixon to speak for him and Nixon has tentatively agreed.

Blakley now rates as a favorite to win, however.

Republicans lost their bid for the mayoralty in St. Louis, where their candidate was beaten decisively by incumbent Raymond R. Tucker. But the GOP makes a point even in defeat. If Nixon had gotten as many votes in St. Louis last November as the GOP candidate for mayor did this week, Nixon would have carried the state of Missouri.

That's the point Chmn. Thruston B. Morton and other Republican strategists have been making in their drive to increase the party's vote power in cities.

Democrats hailed Tucker's St. Louis victory, and also point to victories in Michigan contests for state offices this week as signs of Democratic strength.

Congress has given Kennedy the same right to reorganize departments that Eisenhower used in establishing the Health, Education & Welfare Dept. The new law permits the President to present a plan, and it goes into effect unless one House of Congress rejects it in 60 days by majority vote.

But Kennedy so far is shying away from using the power.

Instead he plans to ask traditional legislative authority for a new Urban Affairs Dept., reorganization of the foreign aid program, and establishment of an assistant secretary for science and technology in the Commerce Dept.

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DWINDLING PRODUCTION of airplanes, as shown in Douglas' DC-8 plant at Long Beach (above), has put drive in . . .

The Big Switch From Aircraft

Major companies in the field hope to find new products through working in advanced technologies. Main attention goes to space development, electronics, nuclear power.

In this large assembly building of Douglas Aircraft Co. Inc., in Long Beach, Calif., production of DC-8 jet transports is being cut back sharply. Not long ago Douglas trimmed output from eight a month to four. In another building the last of 50 Air Force freighters is also coming off the line. Douglas' payroll at Long Beach has come down from 23,000 in August, 1959, to 8,700. A Douglas executive says: "We haven't reached bottom in employment, and we'll soon have a lot more unused floor space."

Unless the Administration reverses itself on military projects involving Douglas, sales in 1961 could drop 30% or more from last year's \$1.2-billion.

What's happening at Douglas and among other aircraft companies is almost exactly what the industry foresaw two years ago (BW-May 16 '59, p84).

• **Defense contracts**, from which the industry gets 90% of its dollars, are scattered in missiles, electronics, and space programs. But even if the aircraft industry had the capacity and knowledge to fulfill all the contracts existing in these fields, such industrial competitors as Radio Corp. of America, General Electric Co., and Chrysler Corp. would still soak up a share—as they do now.

• **Fewer planes are being ordered** and big production runs of planes, except in rare instances, are a thing of the past.

Since that time two years ago the industry has continued its intense efforts to avoid a sharp decline:

• **It has managed**, so far, to keep sales high—although not surprisingly its production schedules show a drop two years from now when current contracts run out.

• **It is still reaching far out**—as it was two years ago—in its efforts to diversify. Lockheed Aircraft Corp. ranged far afield to buy a sewage disposal plant. Grumman Aircraft Engineering Co. is making a hydrofoil boat. General Dynamics owns coal mines.

• **Companies are working hard** to transform themselves into something new in the defense business—specialists in advanced technologies and in the management of complex programs. North American Aviation, General Dynamics, and several others are working hard to understand and master scores of new technologies.

• **Building Up Woes**—The aircraft industry has been facing its brand of trouble—shrinking volume, idle capacity, and thinly spread spending by its military customers—off and on since World

War II. There have been casualties, though usually smaller companies.

Bell Aircraft Corp. has been out of the airplane business for some time. Fairchild Engine & Airplane Corp. is just about finished with plane production. The Martin Co. is now a missile maker. Clearly, the aircraft assembly industry has been in a decline.

• **Degrees of Diversifying**—The day of reckoning for most of the industry has been postponed repeatedly—by the Korean conflict, by the cold war, and by the scramble for new kinds of business.

This week, Douglas ordered into production a new combination passenger-cargo aircraft, the DC-8F, which it says will make possible lower rates for both passengers and freight. It has high hopes for immediate orders.

Generally, the plane makers continued to chase the defense dollar. They got into missiles, a wide variety of aircraft, electronics, space, and rocket engines. In a way these were natural transitions. Most of these products require a high engineering content, are made to order, and have high price tags. Also, the vast areas of plant space owned or leased by the company were not good for much else.

The companies later got into industrial businesses, such as shipbuilding, coal mining, building materials, and nuclear reactors. Still others bulwarked sales by selling jet airliners.

Eventually, two things happened. Sales worked much higher. Some companies even began recording billion-dol-

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lar annual sales. Many changed so much that they were no longer aircraft makers, but were well on their way to becoming broadly diversified businesses.

• **Another Crisis**—Now there is more trouble ahead. Orders for military aircraft are still declining, nor will the U. S. need nearly so many missiles as it did aircraft. Commercial aircraft sales will be low for years to come.

Douglas rang up sales of \$1.2-billion, second highest in its history, yet showed a loss last year. Lockheed narrowly topped the previous year's \$1.3-billion sales, but wound up last year \$43-million in the red after writing off \$67.6-million (after taxes) in anticipated losses on modification and development of the Electra and JetStar airliners. Boeing totted up \$1.6-billion in sales, but this only matched 1959 sales.

For many companies, profits are down and at best uncertain for the near future. The long-range prospects are disturbing, too. The confidential 10-year forecasts of several companies show production staying at present levels for two or three years, then plunging sharply as current contracts run out.

• **Widening Horizons**—To keep this steep decline from taking place, most aircraft companies will continue their scramble for projects they know are coming along: a vertical-take-off plane (the Navy opened proposals for a design last week), a new tactical fighter, a supersonic transport plane, a space plane for travel from existing airfields.

Obviously, not everyone can win enough business in this area, so the determined effort to diversify will continue. Companies will vie to become major developers and manufacturers of electronic equipment, new rocket engines, nuclear reactors. A few companies hope to build their sales to industry from a minor to a major part of their business.

General Dynamics Corp., for example, sets a goal of drawing half its profits from commercial sales, half from military sales.

Most aircraft executives agree that future business, both military and commercial, will go to companies that can master many different technologies. And nearly every company talks hopefully of staying far ahead of everyone else in new technologies that may develop.

Says Thomas V. Jones, president of Northrop Corp.: "Five years ago we were working in about 25 technological areas. Today we are directing research and development in about 60 areas. Products will grow out of this."

Similar statements come from spokesmen of nearly all companies in the industry. They are expressed as more than mere pious hope, with the knowledge that the industry is working on



Single-Place Gyrocopter by Bensen Aircraft Corp.

Looking for production savings?

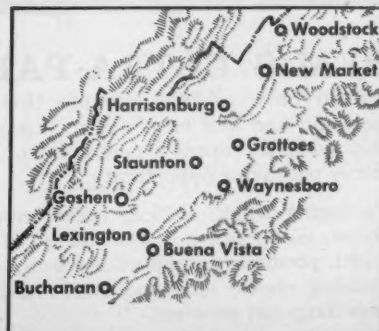
Look into Virginia's Shenandoah Valley

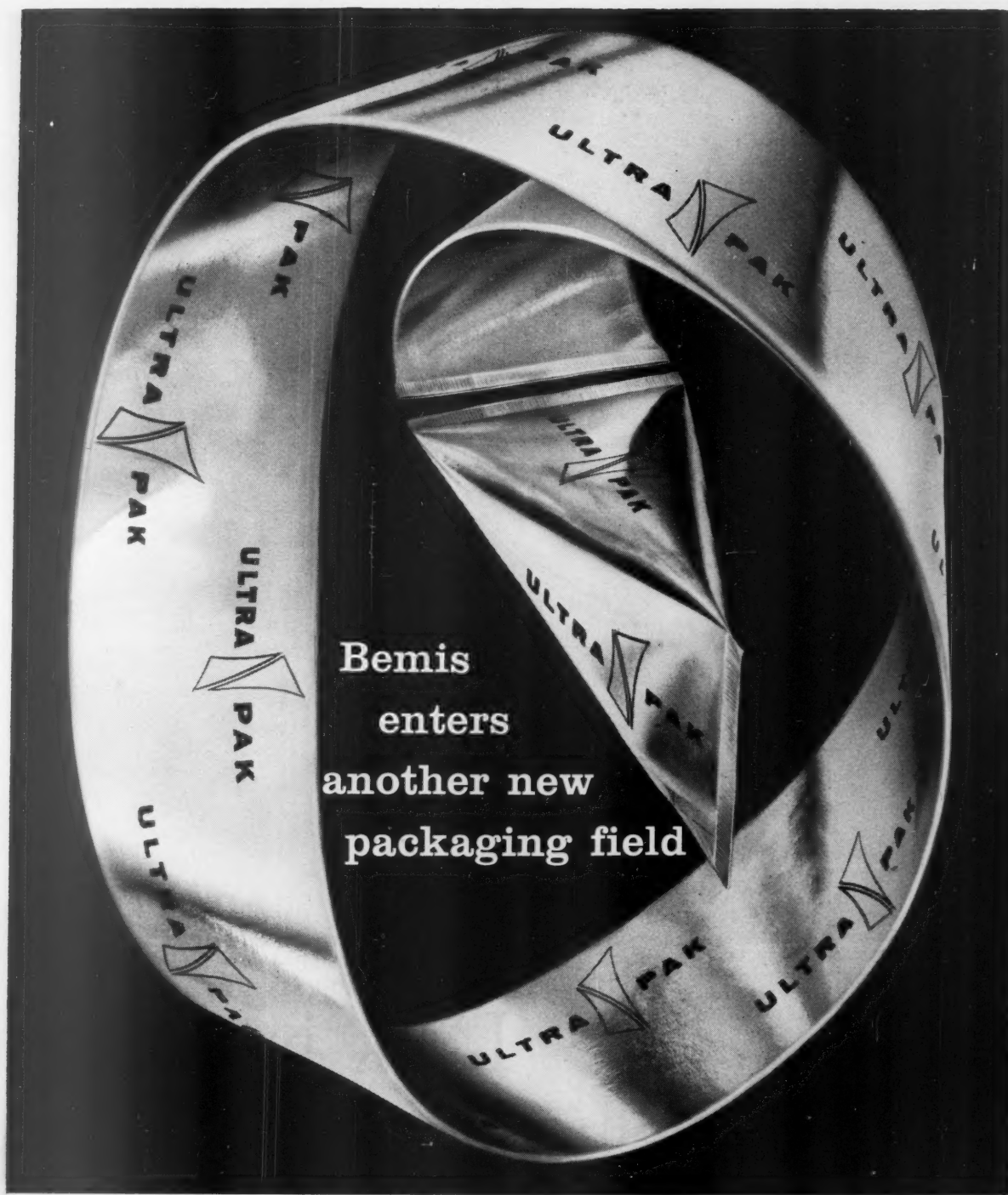
High per-man productivity is the master key to manufacturing economies. And in the Valley of Virginia you benefit from the industrious traditions of the thrifty small farmers who settled this area. Write, wire or phone VEPCO in confidence for site and economic data on the Shenandoah Valley's pleasant, hospitable, conservatively governed communities. You'll find them surrounded by increasingly mechanized farms that each year release a growing harvest of willing, trainable manpower.



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Sizes? From 1/8 ounce (enough mustard for a small sandwich) to 8 ounces or more.

Materials? The *full range* of heat-sealing films, foils and laminations . . . *merchandising materials*.

Economy? As developed by PACKAGING FRONTIERS, Inc., Bemis' newest subsidiary, the tetrahedron becomes the lowest-cost hermetically sealed container ever created. Please write or phone for complete details.

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BUSIN

the frontiers of research. Today's aircraft executives talk of plasma engines and ion-powered space vehicles, and they'll whip out sketches to illustrate what they're talking about.

• **Natural Evolution**—Aircraft companies generally used to be largely assemblers. They built the airframes to government-approved designs, and the government furnished them with the engines and components.

More recently, the government has been giving them only the specifications of the performance it wanted, and the aircraft companies themselves have been designing the entire weapons system—the plane, its components, and everything that supports its operation.

Today, of course, contracts for study and for research and development make up an increasing share of the aircraft business. Now companies hope to become so advanced in technology that they will not only be able to do jobs no one else can do but suggest ways of doing things—such as going to other planets—as no one else can.

• **New Kind of Company**—What is evolving from the aircraft company is a new kind of company within the defense area, one that may develop into something that is unusual in U.S. industry.

Its chief stock in trade will be a familiarity with the most advanced tech-

nologies: metallurgy, rocket and missile design and construction, nucleonics, electronics, and space projects. Its management will be so skilled and so adaptable that it will take on the entire responsibility, for example, of developing defenses against a new weapon.

Other companies, including the nation's industrial giants, will have this technological competence, too. But very few have been under such pressure of circumstances to develop this know-how or have been in a better position to capitalize on it.

Following are the stories of four companies that represent varying stages of development in the technological mastery that many people feel will mark the successful "aircraft" company of the future. These are:

North American Aviation, far advanced in its metamorphosis into a master of many technologies. Its customers are chiefly government agencies.

Lockheed, involved in missiles and space, still heavily involved in aircraft. It sells to the government but is trying to build commercial sales.

Martin, completely converted to missile-making and ambitious in electronics, nuclear power, and space.

Republic Aviation Corp., a heretic in its determination to make its future in airplanes—and only one type at that, military fighter planes.

the wartime company ends there.

Last year, North American's six divisions sold \$964-million worth of some of the most exotic hardware ever conceived in the fields of aeronautics, rocket propulsion, astronautics, electronics, automatic navigation, weapons control systems, and nuclear energy. Its customers include all the military services, the National Aeronautics & Space Administration, other aircraft and missile makers, power utilities, and industrial companies.

• **Talent for Innovation**—Probably farther than any other aircraft company of World War II, North American has traveled the route from assembly of government-furnished parts to research, development, and manufacture of wholly new equipment. Unlike many other companies that have diversified through mergers and acquisitions, North American has done it from within, through innovation.

The transition began in 1946 when Chmn. James H. "Dutch" Kindelberger decided to steer the company into missiles. Kindelberger soon found there was little he could buy from others. In fact, no one wanted to provide rocket engines or electro-mechanical gear for the missiles he proposed to build. So he decided the company would have to learn these arts and build the components for itself. This got North American some practical experience in rocket propulsion, electronics, electro-mechanics, automatic navigation and guidance. As a result of studies in nuclear propulsion and power generation in the mid-Forties, North American won a contract from the Atomic Energy Commission.

Now North American has six divisions:

The Columbus Div. in Ohio rang up \$131-million in sales last year. It makes giant radar antenna disks, a jet trainer and the Vigilante carrier-based attack plane for the Navy.

The Los Angeles Div. also makes a jet trainer but, more important, is responsible for developing the X-15 rocket plane, which recently flew 2,900 mph. It will build the 2,000-mph. B-70 bomber, and the prototype of a plane for outer space. Last year's sales amounted to \$261-million.

The Autonetics Div. is the company's chief sales producer—\$265-million last year. Its business is in electronics and electro-mechanics: guidance systems, computers, and the like. Last year alone, Autonetics added 9,000 workers to its payroll; its labor force now is 23,000.

Some of this division's most intriguing and most profitable products are its phenomenally accurate inertial guidance systems. These operate under all sorts of conditions, in a submarine under polar ice as well as in a plane



NORTH AMERICAN AVIATION'S evolution out of the mere assembly of aircraft is typified by the X-15 rocket plane (above) and the B-70 program. The company develops, builds exotic hardware such as nuclear power reactors, rocket engines.

1. A Triumph of Innovation

In World War II, North American Aviation, Inc., became famous as an assembler of fighter planes, notably the P-51 Mustang, for the U.S. and Allied governments. Its market was narrow and specialized; the planes were as-

sembled under the standard method in which the government provided everything but the airframe.

North American still produces military aircraft: a Navy attack plane and two trainers. But its resemblance to



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Turning point in transportation

Dilemma: Loading docks snarled with trucks. City traffic tangled. Hauling and handling costs rising relentlessly, day by day.

Turning point: Development of a new kind of vehicle, specifically designed to outmaneuver these obstacles. A vehicle that can *move more goods in less time at lower cost* than any conventional truck.

This vehicle is the new WHITE COMPACT, a whole new concept in moving goods. One reason it is a turning point

in transportation is that *it is a turning point in maneuverability*. Its ultra-short wheelbase and extra-sharp wheelcut give it unequaled ability to get in and out of congested areas. It can turn circles inside any other truck. It can cover more territory per day, make more stops, haul more payload without taking more room.

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than competitive models of the same over-all length. In fact, *six of these unique new WHITE COMPACTS can do the work of seven conventional vehicles of equal size*. No wonder the whole industry is talking about this revolutionary new truck.

Ask for a demonstration. It could be *your* turning point in today's battle against rising costs.

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making a daytime flight. The division is developing the inertial guidance and flight control equipment for the Minuteman missile.

In the past couple of years, it has begun to sell computers to commercial customers, and it plans to expand in automation and data-processing.

The Rocketdyne Div. last year sold \$176-million worth of rocket engines, including types that have boosted most of the U.S. satellites into orbit. Its engines power the Redstone, Atlas, Jupiter, and Thor missiles.

It is making the cluster of H-1 engines that will produce 1.5-million-lb. thrust for the Saturn space project, and is also developing a single engine designed for 1.5-million-lb. thrust. It is investigating new concepts of propulsion, too: plasma jets, particle acceleration, and nuclear rockets.

Atomics International Div. sells nu-

clear reactors, \$49-million worth last year. It is now making a reactor to produce 75,000 kw. for the Consumers Public Utilities District at Hallam, Nebr., and an 11,400-kw. reactor, organically cooled and moderated, for Piqua, Ohio. It is also designing compact reactors for space projects.

The Space & Information Systems Div. (new name of the Missile Development Div.) rang up \$82-million in sales last year. It makes the Hound Dog air-to-surface missile, carried by B-52 intercontinental bombers. More important than the dollars it is making now are the prospects of projects it is studying, such as problems of space flight, soft landings on the moon, and receiving and sending back information.

"In the foreseeable future," says Vice-Pres. Leland R. Taylor, "we will have space machines rather than missiles."

hardware to military and civilian federal services.

Lockheed is not yet so huge a storehouse of dollar-earning technologies as, say, North American. Its electronics business, for example, is tiny alongside North American's. But its employment of "more than" 10,000 scientists, engineers, and technicians shows its direction.

• **Sales Channels**—A breakdown of last year's \$1.332-billion sales shows how far Lockheed has diversified:

Military aircraft for the U.S., 29%; commercial aircraft, 7%; foreign military sales, 9%; the Navy's Polaris missile, 30%; the Agena satellite and other space research, 22.5%; electronics and shipbuilding, together about 2%.

Lockheed plans to go deeper into space work. Chmn. Robert E. Gross notes significantly that the National Aeronautics & Space Administration expects to spend between \$12-billion and \$15-billion in the next 10 years.

• **Late Starts**—Lockheed's late start in diversification has made the difference between being able to develop its own knowhow and having to buy it. North American, early in the missile and space business, was able to build up its own technical skills in the new fields; Lockheed has to buy them.

Its problem was complicated half a dozen years ago when Vice-Pres. Elwood P. Quesada, then general manager of the Missile Systems Div., and 15 top scientists walked out in a policy dispute (BW—Dec.25'55,p90).

Again, Lockheed was late in the electronics field, because Gross hoped for a long time to buy Hughes Aircraft Co. and its expertise. This failed, and it was only two years ago that Lockheed bought Stavid Engineering, Inc., for \$15-million to serve as nucleus of a new subsidiary, Lockheed Electronics Co.

• **A Pattern**—Since 1959, Lockheed has been buying companies at a furious pace, trying to make up for lost time. Some of its purchases have seemed haphazard and inappropriate for an "aerospace" company: a shipbuilder, a crane manufacturer, a dry dock company, as well as the electronics plant, a half-interest in a solid-fuel rocket engine plant, and the manufacturing rights to a rubbish-disposal company.

Lockheed people say, however, that all these interests fit in with the Gross formula for future profits, if not directly with the company's plane, missile, and space business. Chmn. Gross favors products that (1) carry high price tags, (2) have a high content of engineering, and (3) are largely made to order.

The industrial companies in the group of purchases also reflect his conviction that companies in the defense business should develop industrial products and markets that will take up the shocks of their main trade.



LOCKHEED still sells planes aggressively, stressing the widely used F-104 (above) among others. But it now gets 30% of its sales from the Polaris missile, and 22.5% from the Agena satellite program.

2. Missiles Bolster Plane Sales

Lockheed Aircraft Corp. is one of the busiest, most aggressive plane builders in the business, and is likely to remain so. Only a few weeks ago, it was the winner of a \$1-billion contract to build 100 or so military jet transports (BW—Mar.25'61,p124), in a surprise victory over Douglas Aircraft Co., Inc.

Coming from behind in the rough-and-tumble aircraft market is nothing new for Lockheed. Its F-104, a top-rated U.S. attack plane, was adopted by six foreign countries (BW—Mar.11'61,p94) after U.S. and foreign makers had engaged in a fearsome slugging match that included whispering campaigns and "drag races."

It was also characteristic of Lockheed's aggressiveness that it was raking

in airline orders for its Electra turbo-prop airliner a few years ago when other manufacturers were concentrating on the faster, long-range pure jets. Until a couple of Electras crashed last year, sending all back to the factory for expensive modifications, Lockheed had sold nearly 200 of these planes.

Today, its stable of planes also includes its JetStar executive plane, a Navy antisubmarine plane, and the Air Force's C-130 troop transport.

• **Anywhere in Space**—Despite its successes in the aircraft market, Lockheed thinks of itself less as an aircraft company than as an "aerospace" company selling planes, missiles, and space hardware. It has sold \$209-million worth of satellite and space knowledge and

Stainless Steel puts the gleam in the prospect's eye

Still standing head and shoulders above many newer ideas in selling today is an old truth—if a product “looks” better, it probably will sell better. This commercial virtue—*appearance*—is responsible for *first impressions*. And first impressions often determine which products move into use or remain in inventory.

If a good-looking product is well designed with a better material, it enjoys a marketing phenomenon—a competitive edge. This competitive edge is a tradition with Stainless Steel. For when the product goes to Stainless Steel, it goes first class. In fact, to lay it on the line, there is a deep respect for Stainless Steel that extends from skyscrapers to soup spoons.

There are those in the market place who know the value of the appearance and quality of a material. They will invest more—and more quickly. They appreciate the fundamental fact that appearance and quality are worth more. Compromise is alien to this metal. From its precisely controlled start in the electric furnace to its impervious finish, Stainless Steel awaits the imaginative designer who wisely employs its inherent qualities to turn prospects into buyers.

In brief, Stainless Steel delivers the edge for the key force—the salesman. Everyone prefers quality. And there's enough wisdom—and demand—in the market place to pay for it. We welcome a chance to work with you to create new products and establish new markets for products made from Stainless Steel. Write United States Steel, 525 William Penn Place, Pittsburgh 30, Pa.

No other metal makes such a material difference in so many applications.



A beautiful building . . . It's Stainless

Number Four Gateway Center stands at the tip of Pittsburgh's Golden Triangle, a shining compliment to the City of Steel. And it will keep its mint-fresh beauty, because it's clad in Stainless Steel. This building is a 22-story reflection of the changing moods of the city around it. Any business firm would be proud to call Gateway Four home—and many already do, for it was substantially rented even before completion.



This Stainless trim has a job to do

If a car has Stainless Steel rub molding along the side, the owner is fortunate. This molding is tough, and its gleam can always be restored with the wipe of a cloth. This is quality in depth. It will stay bright and new-looking for the life of the car, too. In addition to adding a bright touch of beauty and quality, this Stainless molding does its primary job—fending off finish-scratching encounters with the careless—better than any other material.



You can tell a lot about a person by his luggage

The smart traveler carries luggage trimmed with Stainless Steel. A suitcase might get good care at home, but in the rough and tumble world of travel it is often subjected to bangs and bumps. Besides adding an extra touch of quality and beauty that catches the consumer's eye, Stainless trim will take lots of knockabout service and still stay undented because of its great strength.



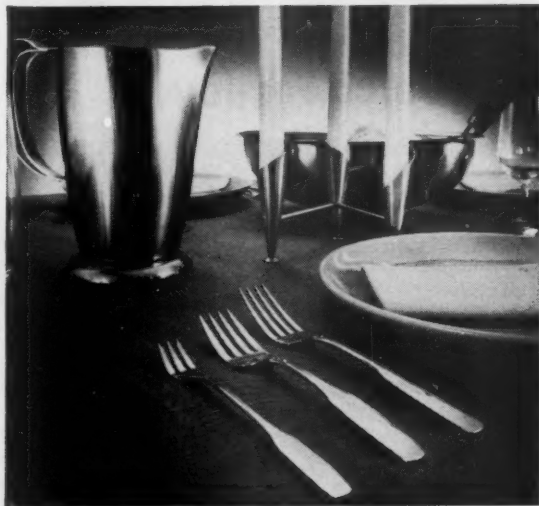
Stainless is for sitting on, too

Notice the modern design of the base of this office chair. It's made possible because Stainless is strong and can be fabricated into unusual shapes. It's a good example of what is possible when designers take full advantage of the unusual strength of Stainless Steel. Incidentally, this is a good example of "component" design. This same type of base can also be used as the pedestals for desks or tables.



Men like Stainless at home...

Stainless Steel brightens up leisure moments. Take this home bar, for instance. It's equipped with stirrers, shakers, openers, ice crushers, strainers, etc., all made of Stainless Steel; and all are beautiful as well as functional. Because they're Stainless, they have the permanent gleam of beauty and quality.



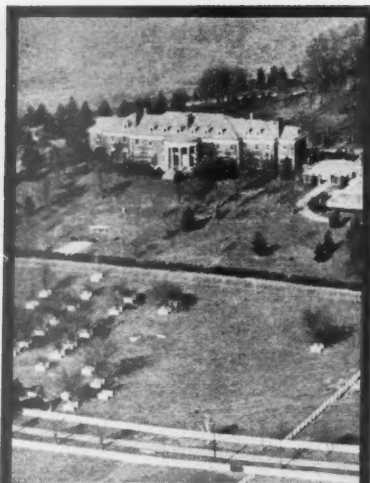
...and so do their wives

In the kitchen and in the dining room Stainless Steel makes a woman's world a more attractive, practical place. She can set a formal table with Stainless—graceful flatware, gleaming pitchers, candelabra and many other decorative items. Cooking is clean with Stainless Steel utensils that stay smooth, shiny, and stainfree. That's why Stainless is used in the better restaurant kitchens—and in the better home kitchens, too.



United States Steel

TRADEMARK



Spindletop Farm — a 1,066-acre Bluegrass showplace near Lexington, formerly a famous horse-farm — is the site of a \$1,000,000 research-center building now being erected by the Commonwealth of Kentucky.

KENTUCKY'S Spindletop... a Unique Research Facility

With the dedication of its new Spindletop Research Center and Park, Kentucky has created a unique institution through which the State, the University of Kentucky, and private industry can function as a three-way partnership in conducting any kind of industrial research which will contribute to the welfare of the partners and the people of Kentucky.

350 acres of Spindletop have been set aside for sale to private industries or associations interested in performing specialized industrial research.

Negotiations with several of America's largest companies on various kinds of research projects are now going forward.

If your company might be interested in participating in the benefits of a research-park project, a concentrated group of research specialists in a campus-like environment, your inquiries are invited. The potential advantages for your company and its research people are numerous.

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Dept. of Economic Development
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COMMONWEALTH OF
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3. A Total Break With Aircraft

In December, Martin Co. assembled its last airplane—nothing extraordinary as planes go, just a Navy P5M-2 destined to fly endless antisubmarine patrol. In the same month, Martin boosted its quarterly dividend to 50¢ from 40¢.

The two incidents cast a sharp light on Martin's complete exit as an aircraft assembler, and on the fat profits realized from its shift to rockets, then missiles, years ago.

Martin began its break with aircraft in 1948 when it took on the Viking, a high-altitude research rocket. This led a few years later to Vanguard. Now Martin builds a whole string of rockets and missiles, including the sophisticated, second-generation Titan II.

All the figures show what a tonic this has been for Martin. Sales last year were \$651-million, topping 1959 by 24% and marking the 10th straight year in which dollar volume had risen.

• **Not Roses Alone**—The big share that Martin has been able to carve out of the missile market has brought controversy as well as profits.

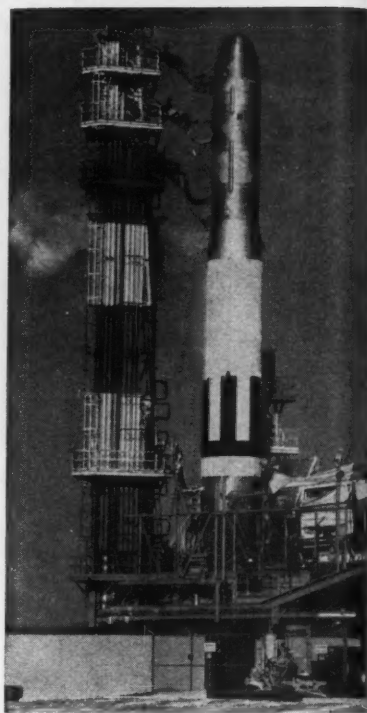
Hostile critics question not only Martin's ability to make missiles but the need for the missiles it is making. An official of another company in missile work says, "Martin's Vanguard was a flop, and there's no need for Titan when we have an operational Atlas." Actually, the Titan I and Atlas are comparable in range, power, and use of liquid fuel, but the second-generation Titan II is rated as more sophisticated than Atlas, with a greater payload/range.

More friendly critics of Martin argue that the company's total switch from aircraft to missiles was really just a frying pan-to-fire move. They say the company is as vulnerable as it was before. It has merely substituted a single product—missiles—for a single product—airplanes. It is still at the mercy of the vagaries of defense spending; only last week, Pres. Kennedy urged a cutback in the Titan II program.

• **Single Product**—Martin knows perfectly well that its flight into missiles has not given it real diversification of product. The company admits that up to now its diversification has been "primarily one of increasing the number of government customers." It hopes to relieve the imbalance primarily by edging into the ranks of the technologically advanced companies.

• **Electronics.** Last year the company set up the Electronics Div. as a sort of clearing house for all the knowledge and skills picked up in its plants and at launching sites. From all this data the company will try to extract something that can be sold.

Martin tried to step up its sales of electronics hardware by purchasing



MARTIN CO. has switched entirely out of aircraft and into missiles, including Titan II (above), Bullpup, Matador.

about 15% of the stock in General Precision Equipment Corp., one of its chief suppliers. But when Martin asked for two seats on the GPEC board, plus the dropping of six directors, the supplier fired back with an antitrust suit. Just last month, Martin also picked up a 14% interest in Epsco, Inc., a specialist in data processing.

• **Nuclear power.** In this field, Martin has already designed nuclear systems for generating power, including a 4-lb generator that produces electricity from the heat of a radioisotope.

• **Space development.** Martin is tied to four projects that produce few dollars but represent a bid for a bigger share in this area:

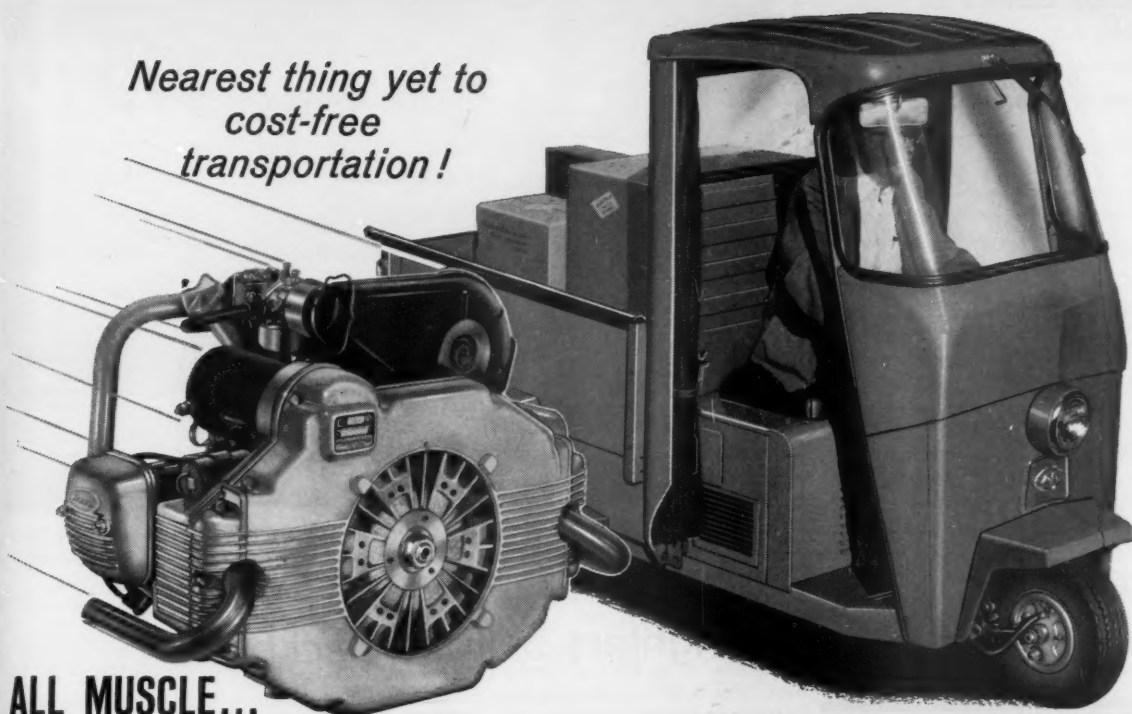
• It holds one of three small study contracts in the Apollo program. Apollo, the next stage of space flight after Mercury, aims at a two-week round trip to the moon, carrying three men.

• In SLOMAR, the Air Force's project for space craft to handle ferrying, rescue, and maintenance work, Martin holds a \$140,000 study contract.

• A specially modified Titan II will be the booster for DynaSoar, the piloted space glider.

• For a much more distant future, Martin is studying nuclear propulsion for NASA's Reactor in Flight Test (RIFT) program.

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The Truckster also now offers many other new advances—such as an extra heavy duty clutch, synchro-mesh transmission and auxiliary transmission*—to go along with these proven advantages:

- An "all-muscle" chassis and body with 800 pound payload capacity.
- The greatest light hauling economy—low initial investment, minimum maintenance and operating costs.
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**Optional; all-weather cab also optional*

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Actual Truckster Cost Analysis now available

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ON-THE-STREET OPERATION

Blue print company in Texas, using Truckster for deliveries, reports operating cost of 0.93 cent per mile; maintenance cost of 0.73 cent per mile.

IN-PLANT OPERATION

Shipyards in Connecticut, using three Trucksters for movement of tools and equipment, reports 1.3 cents per mile operating cost; only routine maintenance.

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The Original Babson System



REPUBLIC is the least diversified of the old aircraft makers, currently gets 90% of its gross from the Mach 2 F-105 interceptor (above). But company wants to diversify, is shopping around to buy an electronics company.

4. Fighters Still the Backbone

"We'll be in the airplane business for a long time," says an executive of Republic Aviation Corp. "We don't expect to build an Atlas or a Thor or a Minuteman, but there is a schedule of aircraft to be delivered."

The statement is keyed to the stubbornness with which Republic has clung to manufacturing aircraft—and just one kind of aircraft at that, the high-speed, high-altitude, heavily armed and armored fighter. A few years ago it was the F-84 series. Now, and at least until 1962, it is the F-105, a Mach 2 fighter-bomber.

Sections of the aircraft-aerospace industry think it's suicidal for Republic to cling to aircraft assembly; others say the policy may, in fact, make sense.

• **Smaller Scale**—For one thing, Republic can get along on smaller contracts than Lockheed, or Douglas, or North American, each of which has four times Republic's sales and so has much bigger plant to sustain. For another, there's probably much truth in Republic's wry statement that military fighter planes are not obsolete; just last week, Pres. Kennedy recommended that a \$25-million modification program be added to procurement of F-105s.

There's also the fact Republic has had little choice but to keep on scrambling to build airplanes. "We missed the boat on missiles," a spokesman admits.

Actually Republic missed out on more than missiles. It is far behind in the three big areas of diversification by aircraft companies—missiles, space development, and electronics.

Last year, 90% or more of the company's \$215,273,000 sales came from the F-105. It makes a few missile com-

ponents, which by the end of this year may reach 6% or 7% of its gross. It also has space study contracts worth \$3-million or \$4-million, and makes a few electronic instruments. But in a four-year search it has looked over some 75 electronics companies without finding one it wanted to buy.

• **Space Ahead?**—Laggard or not, Republic tries to imagine its aircraft may lead it into space. In effect, its dream is of giant strides in the evolution of manned craft. Here's how Republic charts this chancy course:

First, Republic would build "another generation of aircraft" that would need only short runways (STOL) at first, then no runways (VTOL).

The next step is a long one. Republic envisions the "ultimate craft." It would be a chemically fueled jet equipped with a plasma engine for space travel. Its speeds: between Mach 3 and Mach 25.

• **Used to Bumps**—Meanwhile, Republic will roller-coaster along on the peaks and valleys of military aircraft procurement. Production of the F-105 is up and should peak next year. After that there may be STOL and VTOL.

Whatever happens next will be no surprise. Republic has weathered storms before. Peak annual sales in World War II were \$364-million. From there they plunged to \$29-million, climbed to \$400-million during the Korean War, and reached the highest peak of all—\$547-million—in 1955 at the climax of the conversion of the F-84 to swept-wing design. A spokesman, echoing the rest of the industry, says, "The ups and downs of this business are something we've learned to live with." **END**

LABOR

USW Grabs at Independents

● United Steelworkers seeks to breach southern Ohio bastion that has long fought off national unionization.

● If it succeeds, it may also cut down conservative political domination in the area.

● The drive may even bring a resurgence of the militant organizing spirit that has been missing of late.

The United Steelworkers is set for an all-out organizing attack on independent unions in southern Ohio. Its stake is a breakthrough in a hard core of companies whose employees have resisted national unions for as long as 25 years. For labor generally, the stake is much bigger, and this could turn USW's campaign into the most important one in a decade.

If USW can succeed dramatically in its new drive:

- Independent unionism, already weakened a bit by AFL-CIO successes in the telephone industry in New York, will be undercut still further. At the time of the AFL-CIO merger in 1955, small independents organized in a single company or plant were considered an important source of AFL-CIO growth. So far, few have moved into the federation. A potential of well over 1-million members is still there for the tapping.

- Labor's political strength may be enhanced in an area that AFL-CIO describes as "the seat of conservative reaction in the nation." Southern Ohio has been a problem area for the unions in pressing for state legislation or trying to elect friendly candidates.

- Perhaps most of all, labor's organizing may see a resurgence of a militant, crusading spirit. With few exceptions, such a spirit has been missing in union drives in recent years. Efforts to expand unions seldom have been "fired up" as they were in labor's earlier growth years. AFL-CIO executive council members conceded in February that today's big challenge for unions is to get organizing drives going again with some of the old fervor.

This is USW's goal. Albert Whitehouse, director of union's District 25 in southern Ohio and northern Kentucky, admits that only a revitalized spirit of organizing for a cause—can assure success against heavy odds in an area in which not only the USW but also other unions have failed, time after time, in a quarter-century of organizing attempts.

- **Weak Link**—District 25, which will spearhead USW's new drive, has always

been a weak link in the Steelworkers network. Located in what is considered "open shop" country, it has never represented more than a scant third of its potential, although it is in an industry in which 90% unionization isn't unusual. Currently, District 25 is down 20% from its normal level, to 16,000.

Last week, Whitehouse announced that he is ready to go with a new drive to be backed, he said, by an unlimited amount of money and manpower from USW. The district's 21-man field staff would be reinforced, as needed, by as many as 40 or 50 organizers from the international's field staff, he said.

This was received with some skepticism in Pittsburgh, although union officials there said that Whitehouse would be helped in the district.

Meanwhile, the USW office in Cincinnati received pledges of assistance from other labor organizations that have pushed futilely against the wall of independent unionism in the area many times in the past.

- **Prime Targets**—Announcing that he had "enlisted the aid of everybody" in labor, Whitehouse picked as prime targets 14 major companies—including National Cash Register Co., in Dayton, and Armco Steel Corp., in Middletown—that he said "represent the cream of the crop of anti-unionism" in the district. Of the 14, two are nonunion and the other 12 have independent unions.

The companies ordinarily employ 35,960 workers, according to USW figures. About 27,000 are working now.

Another dozen smaller companies are on Whitehouse's target list. These would lift USW's total potential—in good employment times—to somewhat less than 50,000, if all of the 26 plants could be signed up. Not even USW believes that can be done.

A 50,000 potential once might have been considered slim returns for a major union drive involving heavy investments of men and money and a dubious hope of success. With labor membership skidding now, 50,000 is considered a prize worth fighting for.

Such a fight is inevitable if USW

doesn't back down. USW's prime targets are companies that form a stronghold of independent unionism in a conservative area. In addition to National Cash Register (15,000 employees) and Armco (5,500), they include American Radiator & Standard Sanitary Corp., Cincinnati Shaper Co., R. A. Le Blond Machine Tool Co., Yuba Power Products, Inc., American Tool Works Co., Sawbrook Steel Castings Co., Nu Tone, Inc., and Williamson Co., all in Cincinnati, and Mosler Safe Co. and Herring-Hall-Marvin Safe Co., in Hamilton, Ohio.

The two companies without unions are Cincinnati Milling Machine Co. and American Laundry Machinery Co., a division of McGraw-Edison Co.

- **Not Worried**—USW calls the independents entrenched in southern Ohio "just glorified messengers for management," or company unions. Employers and the independents deny this. They contend that the independents exist—and have withstood frequent national union attacks—because the Ohio workers want to hold control over their affairs, not surrender it to national unions based in Pittsburgh, Detroit, Washington, or elsewhere.

Whatever the reason, Walter Hammersly, president of the National Cash Register independent, said a few days ago that the NCR union defeated USW 9-to-1 in 1951 and "certainly isn't worried about any new raid."

"Our people pay 50¢ a month dues compared with \$5 for USW members, and the money stays home," he said. "We have wages and benefits topping any the AFL-CIO has. We've never had to strike." Hammersly added that the NCR employees "know the Steelworkers aren't trying to come in here to solve our problems. They want us to help solve their problems. They've been losing members because of layoffs while NCR has added 600 new employees since January, 1960."

Other independent union leaders, including James Blevins of the Armco union, are just as confident that USW can't make inroads.

"If the USW wants to put on a campaign, it's all right with us. We can't blame them for wanting our members when they're losing ground. But we beat them 2-to-1 in 1944 and again in 1947," Blevins said. "We have a good contract and extra benefits, including a medical plan, and we've never had to strike in negotiating for them."

- **On the Sidelines**—Employers are on the sidelines in the new USW campaign; under the federal law they have

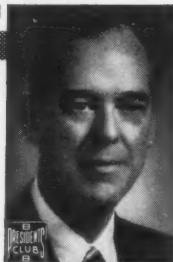
Advertising Tips

FROM BROWN & BIGELOW SALESMEN

Seven Steps to Help You Plan a Better Business Gift Program

By James J. Lee, Kansas City

Executive Advertising Counselor, Brown & Bigelow



• Are you the buyer for your company's business gift program? Whoever has this responsibility in your firm should find these seven points useful in future business gift plans:

1) **Start Early.** For a year-end program you should make your buying decision by June 1. Get it off your mind now. Save precious time later for necessary details.

2) **Stick to a Program Idea.** Settle on a theme and stay with it for several years. Continuity makes your annual buying effortless.

3) **Give Your Plan Advertising Value.** Ask yourself, "Does my plan have both gift value for the recipient and lasting advertising value for me?" Don't hesitate to put your firm name on your remembrance—this makes it honest advertising, no strings attached.

4) **Insist on Quality Packaging.** Smart packaging is a must. So is the use of a well designed enclosure that dramatizes your remembrance idea. Beware of cheap boxes and flimsy mailers.

5) **Perfect Your Distribution.** Shape up mailing lists early. Use individuals' names to keep it personal. Be a perfectionist on details. Precede your mailing with a personal letter. Set a definite mailing

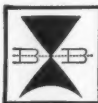
date in advance and then stick to it.

6) **Use a Reliable Supplier.** Buy from a source you can depend on for good advice, best quality and unfailing service. You need all three.

7) **Branch Out.** Get your year-end program clicking. Then supplement with a birthday plan, Novelty-of-the-Month plan and other special occasion ideas through the year. Cover segments of top customer and prospect lists more than just once a year. Building goodwill is a 12-month job—not just a year-end fling.

• If you work at it, your business gift program can be a tremendous satisfaction to your company—a gracious builder of goodwill and business friendships. In this field Brown & Bigelow excels. Our Remembrance® Advertising is much more than mere gift-giving. Our wonderful services and quality products are the trademark of Brown & Bigelow the world over.

• Just this week we have added many new ideas in business gifts to our line. I invite you to see them immediately. Have your Brown & Bigelow man help you get organized right now for an outstanding business gift program with Remembrance® Advertising.



★ JIM LEE is well known to Kansas City's civic and business leaders as one of that community's outstanding advertising executives, active in the Advertising and Sales Executives' Club, Advertising Round Table, the Sertoma Club and Presidents' Round Table. Manager of National Accounts, he has 26 years service with Brown & Bigelow.

Write Dept. A-15 for additional information or for the name of the Brown & Bigelow representative in your community.

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to be, they can't play favorites. But nobody doubts that they prefer independents in their plants, not the USW.

W. L. McGrath, president of Williamson Co., manufacturer of home heaters and furnaces, emphasized last weekend that the USW tried to organize the company before—in 1946 when Williamson had no union—but couldn't. "Our people seem to prefer their own union," he said.

At American Tool Works, USW was ousted as bargaining agent after two strikes. Employees set up their own independent union and have clung to it since. An effort by USW to organize Cincinnati Milling Machine Co. failed in 1936 and a subsequent National Labor Relations Board and court fight by USW for bargaining rights dragged on for five years before USW lost. The union has tried to unionize the company since then, but it's still nonunion. USW blames its defeats on "paternalism with an iron fist."

• **Internal Politics**—The Ohio failures date back to labor's days of organizing successes elsewhere—and to a time when the Taft-Hartley Act's restrictions couldn't be blamed for strengthening those opposed to national unions. It's tougher to organize now. Under the circumstances, what is encouraging Whitehouse to launch a new organizing campaign?

Some say USW's internal politics may be involved; Whitehouse, who returned to USW after a stint as director of AFL-CIO's Industrial Union Dept., may want to enhance his personal prestige. Others say USW's Pres. David J. McDonald and Whitehouse hope to overshadow rival Walter Reuther of the United Auto Workers, who has been talking about new organizing without doing much about it. Others contend that the drive is simply one to build up District 25.

According to Whitehouse, it's because workers in National Cash Register and other companies with independent unions now seem to be "in a receptive frame of mind," and because the Kennedy Administration and now changes in NLRB have created a more favorable time for organizing.

The reason for USW hopes may lie in the fact that many of the plants involved have had substantial layoffs and that there is a growing worry about job security. USW organizers are talking about the threat of automation to jobs—and the need for militant union representation to protect workers.

Similar arguments helped topple independent unionism in the New York telephone industry. But the Ohio independents say USW—which hasn't found a solution to its own members' fears of unemployment—won't be able to sell independent unionists in Ohio the idea that it can help them. **END**

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In Labor

. . .

Workers Laid Off During 1960 Drew \$100-Million-Plus in Company Benefits

Plant workers laid off during 1960 collected more than \$100-million under supplementary unemployment benefits negotiated in steel, auto, rubber, and other industries. The payments—an addition to state unemployment compensation—were from funds financed by employers.

Unemployed members of the United Steelworkers received the most from SUB funds—\$67-million. About two-thirds of it (\$40-million) from the funds of 18 basic steel producers. SUB funds in steel fabricating paid out \$24-million; in aluminum, \$2.5-million; and in the iron industry, \$500,000.

Payments from USW funds totaled \$8.4-million for the first five months of 1960, soared \$58.6-million over the next seven months. Over the year, Bethlehem Steel's SUB fund pay-outs of \$5.4-million were identical with Bethlehem's retained earnings for 1960.

Laid-off members of the United Auto Workers got \$30-million in SUB benefits, with Big Three auto manufacturers' funds accounting for \$19.5-million distributed in 1,103,745 weekly checks during the year. SUB funds in the farm equipment and roadbuilding machinery industry paid out about \$6.8-million and those of supplier plants an estimated \$5-million.

United Rubber Workers members collected more than \$1.75-million in SUB checks during 1960—substantially less than in recession 1958 when unemployed rubber workers were paid \$3.15-million from SUB funds.

"Beached" seamen of the National Maritime Union collected \$669,000 in SUB checks in 1960, less than the \$717,000 in 1959 because times were worse—fewer seamen earned credits necessary to collect benefits.

A number of other unions in electrical manufacturing, machinery, glass and ceramic, stone, and retailing industries also have a few SUB contracts that resulted in additional—mostly small—payments to their jobless last year.

. . .

High Court Agrees to Review Convictions of Union Officials

The U.S. Supreme Court has agreed to review the convictions of two labor leaders, former Pres. Dave Beck of the International Brotherhood of Teamsters and Pres. Maurice A. Hutcheson of the Brotherhood of Carpenters.

Beck was found guilty of making \$1,900 on the sale of a union-owned auto. He claims that the Washington State grand jury that indicted him lacked impartiality and that his case was prejudiced by publicity. Hutcheson received a contempt conviction after refusing to answer questions at a Senate labor rackets committee investigation.

Neither of the appeals will be heard before next fall.

The high court declined to review two other labor cases. They are the legal battle between the Kohler Co. and the United Auto Workers—which will continue in U.S. Court of Appeals in the District of Columbia instead of being transferred to Chicago, as Kohler requested—and a collective bargaining dispute, dating back to a 1953 strike, between the United Mine Workers and Mile Branch Coal Co. of Pittsburgh.

. . .

AFL-CIO Civil Rights Reorganization Expected as Criticism Mounts

Reorganization of AFL-CIO civil rights activities may follow the resignation of Charles S. Zimmerman as chairman of the federation's civil rights committee. Zimmerman quit the staff post to broaden his duties with the International Ladies' Garment Workers' Union in New York.

A. Philip Randolph, president of the Brotherhood of Sleeping Car Porters and only Negro vice-president of AFL-CIO, protested to the federation's executive council in February against the "ineffective" civil rights program of the federation.

Zimmerman's resignation was submitted before the Randolph criticism and was in no way caused by it; Zimmerman was asked to return to a bigger ILGWU job. But the timeliness of the action gave AFL-CIO leaders an opportunity to seek a rapprochement with Negro unionists.

. . .

Kennedy Completes Selection of Members For Committee on Equal Job Opportunity

The Kennedy Administration's anti-discrimination team was completed this week with selection of 15 public members of the President's Committee on Equal Employment Opportunity. The committee is charged with eliminating racial and religious bias in government employment and in companies that sell to the government.

Vice-Pres. Lyndon B. Johnson is chairman of the committee and Labor Secy. Arthur J. Goldberg is its operating head.

The chief administrative officer, representing Goldberg, is Jerry R. Holleman, Assistant Secretary of Labor.

. . .

Labor Briefs

Unemployment among women workers was one-half million higher in February than a year ago, the Dept. of Labor reported this week. Monthly figures showed 1,818,000 jobless women (7.7% of the total), as compared with 1,258,000 in February, 1960.

Independent unions in the St. Louis area have formed a loose alliance against "stepped-up raiding" by AFL-CIO unions (page 59) and proposed legislation that independents say would favor "hostile" national unions.



U.S. Air Force DEW-Line buildings fend off corrosion



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Galvanized steel sheets—over 300 tons—will fill a vital need in the construction of unique air terminal/storage buildings for our Air Force's DEW (Distant Early Warning) Line.

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MARKETING



THE CHAMP shows its muscles by means of a cutaway model. Earphones call visitors' attention to details of Volkswagen construction.



FOREIGN FLAVOR dominated the International Automobile Show at New York's Coliseum, although many U.S. cars, including most of the compacts, were scattered around the three exhibition floors. Importers showed fewer "family sedans" this year.

Foreign cars that shine in styling, speed, or gas economy—but nothing much in between—are what the trade is pushing this year.

Nowadays

You expect to see foreign cars at New York's International Automobile Show, but this week's annual extravaganza at the Coliseum (pictures) points up a change in marketing emphasis from recent years. Shows in recent years have featured workaday family cars of kinds that Detroit wasn't building. Now the exhibitors are back to emphasizing sports cars and the snob appeal of foreign manufacture.



HIGH-PRICED SPORT is represented by Jaguar's XK-E, a 150-mph. sports car that's one of the most eye-catching exhibits at the show. Even the price (above \$5,000) and the many months required for delivery fail to discourage the crowd. So foreign car people see a special market for combination of speed and styling.

LOW-PRICED SPORT is found in the Austin-Healey Sprite, an under-\$2,000 sports car unlike anything made in the U.S. It fits into the second half of one importer's formula for the cars he expects to bring in from Britain: "The cars that can deliver miles per gallon and the cars that can deliver miles per hour."



HIGH-PRICED QUALITY is exemplified by the Mercedes, one of the imports most in demand although Studebaker-Packard Corp., which has U.S. marketing rights, get only about 14,000 a year. Mercedes-Benz' production capacity is limited.



LOWER-PRICED QUALITY is being introduced by Volvo, Swedish producer of a successful but old-fashioned-looking sedan selling at more than \$2,000. This sportier coupe counts on Volvo's quality reputation but will be priced below the sedan.

Only the Exceptional Sells Well

More than 12,000 U.S. dealers and distributors of imported cars have at least \$1-billion invested in the business. Their share of the U.S. market grew originally from the uniqueness of some foreign cars and the prestige of a foreign nameplate. They haven't had to use that sales pitch lately, but the flavor of the New York show is a tipoff to a change in strategy in response to an alarming fall in sales.

• **Change of Tune**—In 1959, more than 600,000 imported cars were sold in the U.S.; in 1960, sales fell to a shade under 500,000. This week, importers themselves predict sales of not many more than 400,000 cars in 1961—that's a loss of one-third of their market in only two years.

Two years ago, the show in New York featured row after row of "family sedans" priced around \$2,000, and some

of the importers were talking of around 1-million sales a year in the not distant future. They primarily were selling small size and economy, rather than foreign origin.

This year the show features row after row of sports cars. Here and there on the three floors of the Coliseum you can see the cause of the importers' switch in marketing plans: the Detroit-built compact cars, all of which are on dis-



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Versatile steel pipe lines the Golden Triangle's "15 Million Jewel Box," The Pittsburgh Hilton

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COMMITTEE OF STEEL PIPE PRODUCERS

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... U.S. industry's compact cars have slammed the door on imported family sedans costing around \$2,000 . . .

(STORY on page 64)

play except Chrysler Corp.'s Valiant and Lancer.

The U.S. industry's compact cars have slammed the door on the market for imported family sedans costing around \$2,000. So the importers have withdrawn to a carefully prepared position—the position, in fact, from which they launched their original assault on the U.S. customer. They entered this market by offering cars the U.S. industry did not make, principally sports cars and other vehicles with distinctive characteristics—the Volkswagen is a prime example.

From 1956 through 1959—the U.S. industry offered few small cars selling for \$2,000 or less, so the foreign makers shot the works at this seemingly insatiable U.S. market.

• **Today's Market**—A good, solid U.S. market is still in sight for cars made abroad. It is a market that is succinctly described by A. E. Birt, president of Hambro Automotive Corp., importer of British Motor Corp., Ltd., cars. He says Hambro is going to limit its imports to "the cars that can deliver miles per gallon and the cars that can deliver miles per hour."

In the first category, BMC offers the Austin-Morris 850 (about 10 ft. long with a tiny engine mounted crosswise above the front axle) and the Morris 1000, one of the world's most successful small cars. In the "miles per hour" class it has the MG, the Austin-Healey, and the Austin-Healey Sprite (picture, page 65), the lowest-priced sports car.

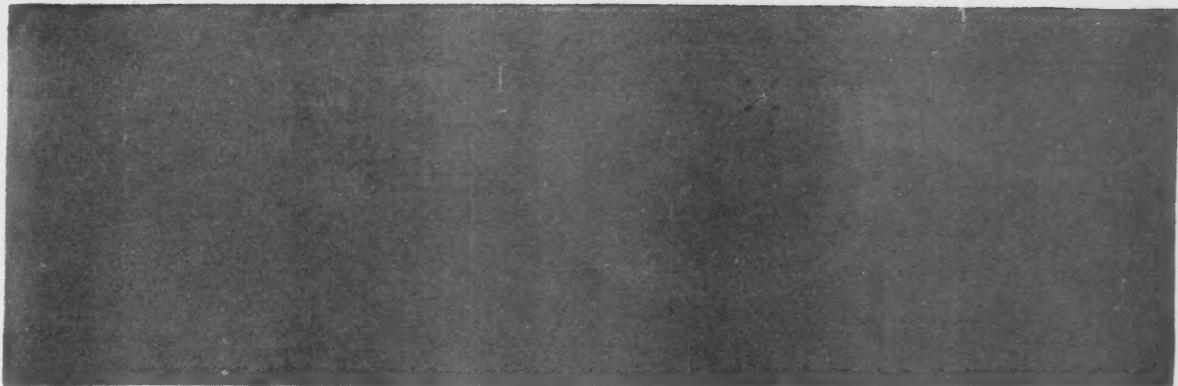
You can run down the list of auto importers and find many examples of Birt's prescription, along with examples of undercutting American competition.

• **Ultra Economy**—A few years ago, price reductions on imported cars were unthinkable. So far this year, Fiat, Renault, Hillman, and others have cut prices, some sharply. When Rootes Motors, Inc., chopped \$135 off its low-priced Hillman Minx sales picked up immediately.

Volvo, the Swedish producer that had enormous success with an old-fashioned-looking sedan selling for more than \$2,000, had to bring out a version selling for less to keep its name moving in the market. And next fall Citroen, the French manufacturer of cars that are radical in both engineering and styling, will introduce a four-passenger "low-priced economy car" designated the AMI 6.

Rootes Motors, too, next fall will

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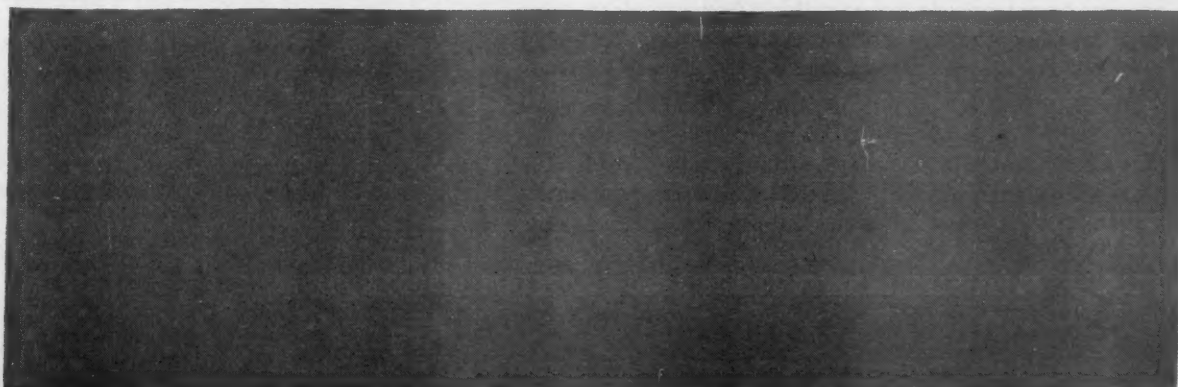


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show what it calls "an entirely new ultra-economy car." John Panks, Rootes managing director, is a little more specific than Birt in outlining the future of imports in the U.S.: "The bulk of sales will be of low to medium-priced sports cars, hand-finished luxury models, and ultra-economy models selling for \$300 or more below similarly equipped U.S. compacts."

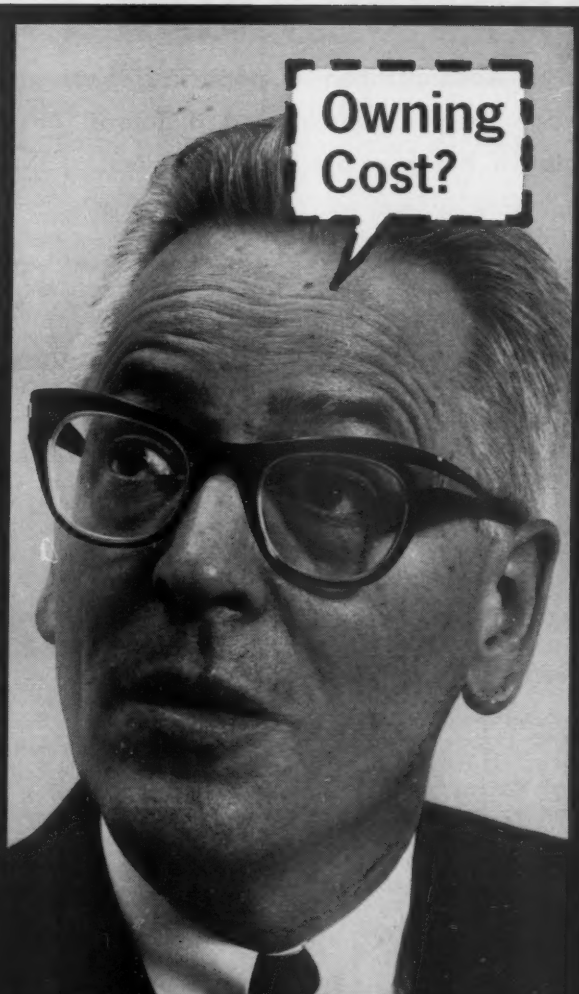
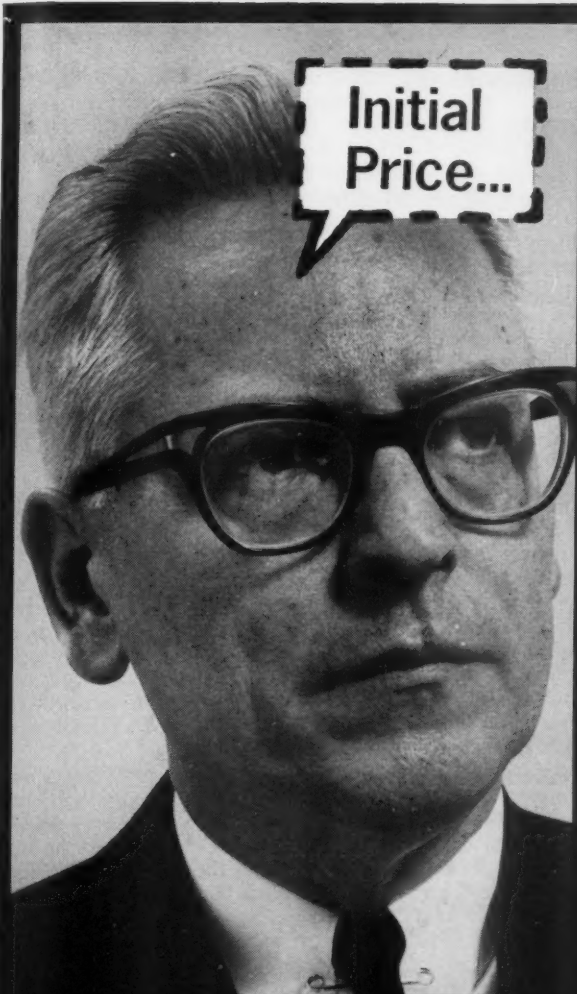
• **Distinctively Foreign**—Panks is talking about precisely the kind of cars the U.S. industry, for one reason or another, has never been too keen on making. And these are the kind of cars most interesting to the true foreign-car fancier. One of the leading crowd-pullers at the show was the new Jaguar XK-E, a "standard production car" capable of 150 mph., despite the fact that it costs nearly \$6,000 and a purchaser probably would have to wait many months for delivery.

The Mercedes-Benz is now one of the best-selling imports—although production capacity limits the importer, Studebaker-Packard Corp., to around 14,000 cars a year. Another car with a reputation for high quality is France's Peugeot. This, too, has resisted the general slump in imported car sales, although it is priced above \$2,500. Its quantity also is limited.

• **Americanizing VW**—There is one notable exception when the importers stress their foreign origin. It is Volkswagen, which seemingly is trying to blend into the American landscape. More and more, Carl H. Hahn, general manager of Volkswagen of America, Inc., is repeating that his company and its distributors employ Americans, pay taxes to the U.S., and contribute to the U.S. economy, and that the car is made partly with American tools and materials. So the sale of Volkswagens anywhere in the world "helps American business."

This is intended to build a defense against any "Buy American" campaign inspired by the balance-of-payments problem, by any feeling that Germany is not meeting her share of aid to underdeveloped nations, or by any anti-German sentiment lingering from World War II. Hahn's campaign is tied also to his belief that Volkswagen sales now follow the trend of all auto sales, primarily because of an extraordinarily successful dealer network.

In the face of almost universal doubt that it was possible, VW built a force of exclusive dealers, insisting on having the first allegiance of every VW dealer. With a sound product backed by clever sales promotion, VW probably has become better integrated into the U.S. auto business than any other foreign make. From Hahn's point of view, that's a good position to be in, and he doesn't want anything to rock the boat. **END**



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Special Voice For Consumers?

Administration is pondering how to implement its pledge to give consumers a high-level government representative, but there are lots of problems.

Pres. Kennedy's New Frontiersmen are trying to devise a way to redeem his campaign pledge to give the consumer a voice in the highest councils of government.

In a campaign speech before some New York housewives on Nov. 5, Kennedy promised to appoint a consumer counsel in the White House. The counsel would "help formulate economic policies which will keep a general rise in the price level from having a discriminatory effect upon wage earners of the United States and their families."

• **Special Report**—Now it is a question of just how such a function should be organized and what kind of mandate it would have in representing consumers.

I. General Opposition

Right now Mrs. Persia Campbell, Queens College economics professor who was consumer counsel to Gov. Averell Harriman of New York, is drawing up a report recommending the answer. She is slated to join the staff of the Council of Economic Advisers as the consumers' representative.



EXPERT on consumer economics, Mrs. Persia Campbell, will join staff of Council of Economic Advisers as consumer counsel.

Actually, there is opposition to the whole idea of a specially designated consumer counsel, not only for the United States government but also at the state level. Mrs. Campbell's job with Gov. Harriman, in fact, was eliminated by Gov. Nelson A. Rockefeller, who turned over the function to the Bureau of Consumer Frauds under the state attorney general's office.

In California, there is mounting opposition to the Office of Consumer Counsel that Gov. Edmund G. Brown pushed through the legislature shortly after his election more than two years ago. The issue will come to a head during the current legislative session's budget hearings. Gov. Brown wants Mrs. Helen Nelson, the consumer counsel, awarded a budget increase to \$104,962, some \$30,000 over the 1960-61 fiscal year. On the other hand, the legislature's fiscal expert wants that request cut in half, and one assemblyman has introduced a bill to abolish the office.

• **"People's Lobbyist"**—Mrs. Nelson gets \$15,750 in salary, has a staff of five, including a special field man who earns \$10,602. She likes to refer to her job as "people's lobbyist." Specifically, she is supposed to recommend consumer legislation, make reports to the people, testify at government commissions.

Thus far, Mrs. Nelson's office has recommended credit legislation to (1) prevent gouging of consumers, (2) protect buyers against adulterated or misbranded cosmetics, and (3) prevent inequitable sales tax charges by merchants.

Once "outright swindles" are eliminated, Mrs. Nelson says her job will be to look into other matters affecting the consumer's cost of living. She wants a lawyer and another staff man to increase her scope.

It is doubtful the federal job would have such wide functions. The idea already has brought opposition from the U.S. Chamber of Commerce. It's against any "consumer's advocate" appearing before regulatory agencies. By adding another agency to those that already are heard by regulatory authorities, it says, would simply compound the problem of delays in decision-making.

• **Michigan Controversy**—In Michigan, there is growing controversy over the Michigan Consumer Assn., a non-governmental body, set up to function as a

guide for consumers through education, research, and legislation. Its educational work apparently has been effective, but not much else of its program has been. Some thought, too, has been given to a consumer representative in the state administration, but this has failed in the past.

II. Limited Office

All of this serves as little guidance for the Kennedy Administration. The Administration apparently doesn't contemplate a special White House office backed by a staff of lawyers who would intervene in proceedings. Rather, it envisions a small staff in the Council of Economic Advisers that would coordinate already existing consumer functions in the various federal departments, act as adviser to regulatory agencies, the Justice Dept., the President, and testify before Congressional committees.

Carrying out this job, the consumer counsel would consult with consumer groups outside the government, but probably would not have a formal organization.

Such areas as deceptive advertising and packaging where the Federal Trade Commission already has authority would be outside the counsel's jurisdiction, although the counsel might bring problems to FTC's attention. However, the counsel very well might take stands on such emerging issues as consumer credit legislation.

The job of pulling together the ideas about what kind of a consumer office the Administration should establish falls to Kermit Gordon, member of the CEA. He points out that the council itself represents the general public interest, which is almost the same thing as consumer interest. Thus, the special officer would deal with specific consumer problems such as credit control that do not fall into existing government agencies. One thing is clear: The consumer counsel wouldn't get involved in wage negotiations, even though consumer prices are directly affected.

• **Budget Bureau Analysis**—Besides the study Mrs. Campbell is doing, the Budget Bureau has nearly completed an analysis of what functions different federal agencies now carry out that amount to consumer representation and how effective they have been. There is talk of reviving the Committee of Consumer Advisory Representatives of the different government agencies that was set up during the New Deal but has lapsed. The idea would be to achieve some sort of coordination of consumer policy with the Administration's general economic policy. **END**

INTERNATIONAL OUTLOOK

BUSINESS WEEK

APR. 8, 1961



The U.S. balance-of-payments crisis seems to be over, at least for a year or two. In fact, the payments outlook for 1961 is amazingly good.

At the moment, total transactions with foreign countries are just about in balance, which explains why there has been no loss of gold recently. A surplus for the first six months looks pretty certain, and a surplus for the year is possible.

If we end up 1961 in the black, it will be the first surplus in over a decade, with the exception of the post-Suez year 1957.

The big change this year is in the movement of short-term capital. In 1960, we had a massive outflow of capital, much of it speculative, that put us badly in the red. Now there's a reverse flow of these funds, and a fairly substantial one.

Other basic elements in the payments picture have shown improvement, though not in a dramatic way.

Our trade surplus right now is running even higher than last year. During the first quarter exports have continued to go up ever so slightly, while imports have continued low.

The balance on commercial services is about the same, and so is government spending abroad. But long-term private investment is off some.

Uncertainty about the business cycle here and in Europe makes predictions for the second half of the year risky, of course.

An upturn here and a downturn there would hurt U.S. exports while stimulating imports, thus reducing our trade surplus. To be sure, such a situation would lead to an offsetting flow of capital to the U.S., both short-term and long-term. But this capital inflow wouldn't necessarily be big enough to offset the decline in our trade surplus.

On the other hand, if we get a combination of an upturn here and a continued boom in Europe, the U.S. could expect gains on both trade and capital account. And a continuation of the European boom through 1961 seems a lot more likely today than it did two or three months ago.

Pres. Kennedy and Prime Minister Macmillan have had some economic questions on their agenda this week, on top of cold war issues such as Laos, the Congo, and Berlin (page 21).

Among the economic problems there are two of immediate concern, to London and Washington. One is the split in Western Europe between the six-nation European Economic Community and the seven-nation European Free Trade Assn. The other is the strain that has been put on the international financial system by short-term money movements.

Macmillan has found Kennedy as much opposed as former Pres. Eisenhower was to any arrangement between the Six and Seven that would involve further discrimination against U.S. goods or would interfere with the development of political unity among the Six. Kennedy apparently feels the British should be able to work out some kind of intimate association with the Six—short of full membership—and still meet the U.S. criteria.

Kennedy and Macmillan have no difficulty in agreeing on the need to strengthen the International Monetary Fund. Both men feel that the IMF should be in a position to relieve the pressure that short-term capital move-

INTERNATIONAL OUTLOOK (Continued)

BUSINESS WEEK

APR. 8, 1961

ments can put today on the world's two reserve currencies—the dollar and the pound. Last year it was the dollar that suffered, but this year it will be the pound.

There's a good chance that some revamping of the IMF will be approved next September at the annual meeting of the Fund in Vienna. Meanwhile, the strength of the pound is heavily dependent on an agreement recently reached between the main European central banks.

This agreement was made immediately after the revaluation of the German mark set off wild speculation in foreign currency markets. It provides that the central banks will hold one another's currencies in unlimited amounts in order to counteract hot money movements.

Under the agreement, banks holding a foreign currency may invest it in that nation's securities. In the case of sterling, this would give them the option of buying British Treasury bills and earning 4½%. Despite this provision, there is danger that holdings of sterling will get too large in the next few months. For example, if there is a big outflow of short-term money from London, this could lead to larger offerings of pounds to some central banks than they want to hold either in cash or Treasury bills.

—•—

The U. S. is planning to offer a major contribution to help finance India's Third Five-Year Plan (BW—Jan. 28'61,p117). The proposal will come later this month, when India's creditors meet in Washington.

The Administration is prepared to put up about \$500-million a year in long-term, low-interest loans, plus \$200-million worth of surplus foods.

The offer will be contingent upon:

- Proportional contributions from other industrially advanced nations.
- Congressional approval of Pres. Kennedy's foreign aid program.

Getting agreement from other contributors will take energetic negotiations because there are difficult timing and technical problems involved. But Washington observers believe that the U. S. approach is acceptable.

The Administration hopes that an agreement on joint financing of India's development will help persuade Congress to go along with the President's aid program. The Indian program will illustrate the advantages of a long-range approach in encouraging sound development planning.

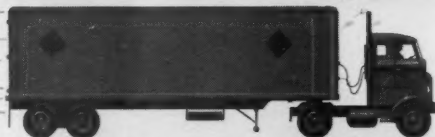
The President and Secy. of State Dean Rusk are running scared as they prepare for a Congressional fight over foreign aid. They have asked for authority to borrow up to \$7.3-billion from the Treasury over the next five years to help finance economic development abroad.

Kennedy and Rusk have taken a calculated risk in asking for long-term borrowing authority instead of a larger annual appropriation. They fear that they will get neither, which will make their task of winning the economic cold war much more difficult.

A task force is being formed to build support for the foreign aid program. It will include influential businessmen, bankers, university professors, representatives of foundations.

The President also hopes to build a pressure group in Congress to work for the often unpopular foreign aid program.

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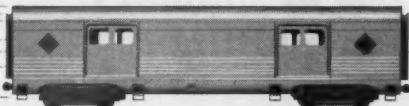
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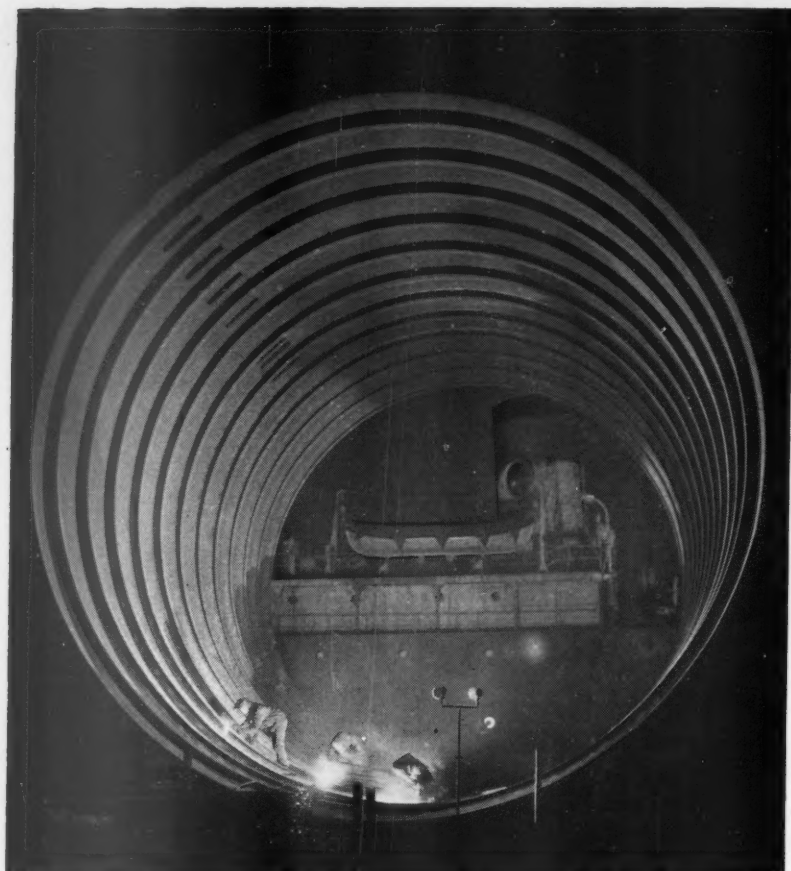
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BUSINESS ABROAD

Quadros'

New president imposes austerity on domestic economy and stresses independence in world affairs.

A sad-faced man with a bristling moustache is leading a quiet revolution in Brazil. The revolution began last October via the ballot box when Brazilian voters gave Janio Quadros (picture) a landslide presidential victory. But the revolution is no less sweeping for being peaceful.

In his first 70 days in office, Pres. Quadros has headed the nation in several new directions:

- In domestic affairs he has clamped economic austerity on Brazil. He is aiming at steady, balanced economic progress that will become self-sustaining and thereby eliminate the need for costly crash programs or brewed-in-Moscow elixirs.

- In foreign affairs, Quadros has set the nation on an independent course that's less closely assigned with the U.S. Quadros evidently hopes to make himself a powerful spokesman for Latin America and to make Brazil an influential world power.

- Longer range, the new president has ideas for reforming the social structure of big, unwieldy Brazil. He has set for himself the task of changing many of the nation's habits.

- **Impact on U.S.**—The Quadros revolution and its impact on Latin America's largest, most populous country is immensely important to the U.S. and U.S. businessmen.

Economically, Brazil is our sixth-best customer for exports. Last year, the U.S. shipped \$400-million worth of goods to Brazil—mostly machinery, chemicals, electrical equipment, and consumer products. On the U.S. import side, Brazil stands fifth on the list of suppliers. Some 46% of U.S. coffee comes from Brazil, along with minerals such as manganese, mica, and beryl.

Politically, the Americas have been confronted with a direct challenge from the international Communist movement, operating from its beachhead in Cuba. Communism and Fidelism (BW—Feb. 18 '61, p. 61) ostensibly offer progress to a dissatisfied Latin America. In Brazil, Quadros is out to show that a democracy is capable of providing the prosperity and social justice that an impatient people demand.

In the past 10 years, Brazil has taken giant strides toward realizing its im-

s' Broom Sweeps Brazil

mense economic potential. Under Quadros' predecessor, Juscelino Kubitschek, Brazil went on a building spree—10,000 miles of roads, power projects, a \$400-million automotive industry, and a sparkling new capital, Brasilia.

But Kubitschek also let his country's finances go to ruin. In five years, the printing presses quadrupled the money in circulation. Borrowing abroad pushed foreign indebtedness to the point of unmanageability. The country spent itself to the verge of bankruptcy.

I. Economic Austerity

Thus, an inflation-ridden electorate turned to Quadros and his campaign symbol, the broom. Quadros, at 44, is Brazil's youngest chief executive. He took office Jan. 31, and undertook to save Brazil from financial collapse.

• **Slash in Spending**—To cut this year's potential \$1-billion federal budget deficit, Quadros decreed a 30% across-the-board slash in spending and ordered overseas missions to reduce their expenditures. Some he closed down. Government doctors and engineers lost their 40% bonuses.

In his first week in office, Quadros stunned government workers by putting them on an eight-hour day. A leisurely 11-to-5 workday has been the rule. He ordered probes into dozens of federal agencies, fired heads of those where he found graft, and suspended contracts where he suspected irregularities.

He also has merged the government's creaky coastal and overseas shipping lines, temporarily ruled out new construction in Brasilia and invited private enterprise to take over the city-building job, and rescinded a subsidized airline's permit to fly route to New York.

• **Foreign Debt**—Brazil's most critical financial problem is foreign exchange. Exports have not been nearly enough to satisfy the nation's dollar needs.

Brazil's external debt is believed to be \$2.5-billion—92% of which is owed in convertible currency. For financing specific projects, Brazil owes the World Bank \$216-million, the U.S. Export-Import Bank \$474-million, and private banks \$921-million.

Having borrowed to make up balance-of-payments deficits, which ran to about \$355-million last year (chart, page 80), it owes \$140-million to the International Monetary Fund (IMF), \$228-million to Ex-Im, and \$238-million to private banks. About \$500-million is due this year.

• **Seeking Credit**—Last month, Quadros sent Ambassador-at-Large Walther Moreira Salles to the IMF on a credit-seeking mission. IMF officials indicate that they may be willing to extend further credits to Brazil, because Quadros has undertaken exchange reforms that Kubitschek refused to impose.

Within the next few weeks, Finance Minister Clemente Mariani is slated to come to Washington to follow up Moreira Salles' exploratory talks. It



FINANCE MINISTER Clemente Mariani, who has the job of coping with huge foreign debts, will discuss financial problems with Washington.



FOREIGN MINISTER Afonso Arinos must implement new "independent" line, while maintaining strong ties with the free world.

PRESIDENT Janio Quadros, 44-year-old reformer, hopes to mold Brazil and its 65-million people into a world power. His first problem is revitalizing the nation's economy.



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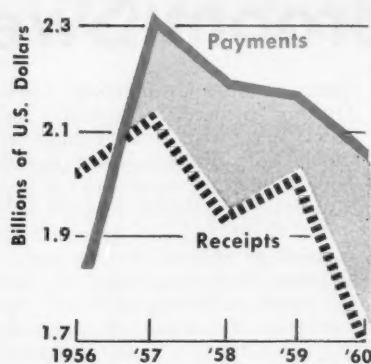
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Brazil's Balance of Payments



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is likely that Mariani will also discuss Brazil's debts with the U.S.

Washington officials indicate that the U.S. will try to reschedule payments and probably attempt to work out some relief for Brazil's commercial debts. Pres. Kennedy already has offered Brazil \$100-million, but Quadros reportedly is asking for \$500-million. U.S. spokesmen say it is not likely that the U.S. will meet this request but suggest that the U.S. will put up more than the proffered \$100-million.

• **Credit Brakes**—To brake dollar expenditures and to provide more income to the Treasury, Quadros has taken his boldest financial step—an exchange reform that is headed toward elimination of the nation's multiple rate system. The preferential rate for government purchases and essential private imports was doubled, thus practically erasing subsidies. Simultaneously, cruzeiros for the purchase of nearly all other imports were placed on the free market, where their value dropped from 230 to 260 to the dollar.

Quadros has indicated that these steps will be backed up by credit-tightening measures and an overhaul of the nation's banking laws. The big test of courage, however, will be what he does about coffee. Coffee producers are Brazil's main dollar earners and a powerful political bloc. Quadros has promised a "solution in the true interests of the entire trade, which do not always coincide with those of the coffee growers."

• **Foreign Capital**—Foreign businessmen in Rio are wondering what Quadros will do about a measure that permits foreign companies setting up in Brazil to bring in equipment outside normal import channels. The six-year-old ruling has spurred over a half-billion dollars in foreign investments. But Brazilian industrialists, who must pay high duties, say they have been unfairly treated.

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rates, they maintain that they are even worse off and may press for a reduction in the incentive for foreigners. Quadros may be sympathetic because he would like to reduce foreign industry's role proportionately by building up Brazilian industry.

Foreign companies have also noted Quadros' call to limit remittances of profits. A bill to hold such remittances to 10% of capital is given a good chance to pass the Congress.

II. New Foreign Policy

Quadros' foreign policy stance, which is tangential to Brazil's tradition of friendship with the U.S. (BW-Mar. 11'61,p103), is highly disturbing to many of his campaign supporters. Quadros has labeled his policy "independent," which apparently calls for dealing with both free world and Communist nations.

But both Foreign Minister Affonso Arinos and Quadros himself have assured the nation that the new orientation in foreign affairs does not mean abandonment of ties with the Western democracies. "We are natural-born members of the West," Quadros said in his first message to Congress. "Brazil will remain faithful to the inter-American system."

What the new policy adds up to, says a foreign ministry official, is a more assertive role for Brazil on the world stage from which, he contends, the U.S. stands to benefit. "It is better to have two strong nations traveling the same road than one strong one hauling a weaker one along," he says. He further argues that when Brazil speaks up, its voice will be more effective if the world knows it is not a satellite.

• **Trade Hedges**—There are domestic, economic, and political reasons for Quadros' stand. Brazil doesn't want to overlook a single foreign-trade bet. With 40-million bags of coffee in storage and another 40-million to harvest in July, it is open to trade with all.

Brazil's nationalists, with their Communist and Castroite outriders, are by no means impotent, although beaten in last year's elections. Quadros' economic orthodoxy does not please them and they can exert uncomfortable pressure against reforms. Hence the use of foreign policy to placate the left.

In dealing with the U.S., Quadros probably feels there is no percentage, either in Washington or at home, in fawning. He most likely is also using his foreign policy to pry more aid from the U.S.

Washington foreign policy officials apparently understand the Quadros policy and aren't upset by it.

It's much too early to tell just where Quadros will take Brazil. He's an unknown quantity, especially in foreign

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affairs, and personally an enigma. Whether he has the diplomatic skill to steer an independent course and avoid being swept into unfriendly waters remains to be seen.

III. War on Causes

Having moved in new directions in the domestic economy and in foreign affairs, Quadros is also beginning a long-range assault on what he considers the fundamental causes of Brazil's plight. Among the social ills are:

- A weak sense of social responsibility among the upper classes, which use the public treasury for private gain, dodge taxes, and profiteer.

- A near-feudal land system that keeps hundreds of thousands on meager wages and off the market for all but the barest necessities of life.

- A stigma attached to work. As Quadros puts it, "Unfortunately, there are persons among us who don't want to work and are even proud of it."

- A costly and inefficient bureaucracy resulting from use of public jobs for welfare purposes and a belief that government must solve all problems.

- Living beyond one's means. Many Brazilians are impatient for the good things of life but are not always willing to work for them.

- An educational system that has permitted 60% of the population to remain illiterate.

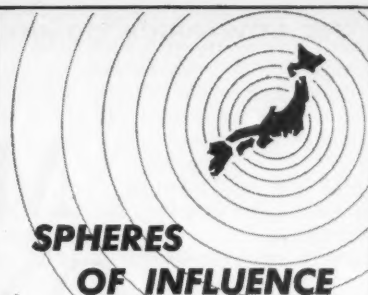
- **Big Challenge**—Attempting to change hallowed practices and ingrained ways of behavior is an enormous challenge. So far, Quadros has only hinted at how he expects to go about it. "I will have to apply drastic and harsh measures," he says, "but I am indifferent to applause."

There is little doubt that he is prepared to go the limit to effect his reforms. "Powerful men have already sought me out to express dissatisfaction with my government," he told a business delegation recently. "I have explained that there are only two ways to stop me: to depose me or to assassinate me, which do not appear easy."

What is equally not easy, for the Brazilian public, is to swallow the strong medicine he has been dispensing and of which he promises more.

- **Uncertainty**—To many, his style of governing is disquieting. He has made scant efforts to cultivate Congress and his cabinet is primarily called upon to execute formulated programs rather than to render advice.

There are fears that Quadros, in his struggle to reform the nation, may go the strongman route. Says one businessman, "If he really straightens this country out, he'll be tremendously powerful. Both he and the public may start thinking in terms of the 'indispensable man.'" **END**



SPHERES OF INFLUENCE

Concurrent with the steady widening of liberalization of foreign-exchange controls, the Fuji Bank Ltd. is steadily widening its lead as Japan's ranking commercial bank — and with emphasis in foreign trade transactions.

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In Business Abroad

. . .

Savings Rate in Japan Hits Record High, But Consumer Demand Is Gaining, Too

The rate of savings in Japan is running at better than 30% of that country's GNP. This is a record in a free economy and may even be an all-time high in a controlled economy, according to J. Burke Knapp, vice-president of the World Bank, who recently returned from a tour of Japan.

Moreover, Knapp says that over the past two years the rate of savings on new or additional earnings has run as high as 40%. Much of it is being plowed back into the economy in the form of new plant and equipment, and individuals are showing an active interest in such investments as utility company bonds.

Eventually, consumer demand in Japan is likely to rise to the point where the rate of savings will fall, and inflation becomes a problem.

In fact, signs of such a change are already causing fears of inflation (BW—Apr. 1 '61, p. 73). Rising private consumption, stimulated in part by the government financial program, has led to an upward spiral in the consumer price index over the past year.

. . .

Japan's Ministry of International Trade and Industry announced that from this week on, some 300 machinery import items, along with various consumer goods, would be given free access to the Japanese market. Previously, there had been serious restrictions on import of these items.

Imports of such things as trucks, buses, and agricultural machinery will be placed on either the automatic approval list or the automatic allocation list. Both lists will get immediate approval, but those items on the allocation list will be watched more closely so that the Japanese government can limit their import in case of foreign exchange shortages or to protect domestic industries.

The 300 items were originally scheduled to be liberalized next Oct. 1. The stepped-up timing of the present announcement probably came as a result of increased pressure on the part of U. S. government and business officials.

. . .

French Find Champagne Consumption A Heady Indicator of Economic Growth

Frenchmen say that economists seeking new indicators of economic growth might well glance at the volume of a nation's champagne imports.

French manufacturers of the sparkling wine have found that West European countries, whose economies have shown hefty growth surges over the past few years, have also shown parallel growth curves in champagne imports. In West Germany and Italy, the two boom-

iest countries, imports of French champagne are up 77% and 58%, respectively, over the last five years. Holland shows an increase of 32% for the same period. Belgium, whose economy has been wobbly, shows little progress.

The two biggest foreign consumers of the French wine remain Britain and the U. S., in that order. British imports have risen 31% over the past five years while U. S. imports over the same period show a very sober 1% rise.

Economics notwithstanding, Frenchmen are still their own best clients. They annually consume over half of their total production.

. . .

Malaya's First Aluminum Rolling Mill To Be Built and Run by Canadian Company

Aluminium Limited of Canada is starting construction on the first aluminum rolling mill in the Federation of Malaya. This mill will be operated as a wholly owned subsidiary of Alcan and will be incorporated in Malaya as the Alcan Malayan Aluminium Co., Ltd.

The rolling mill will have an initial annual capacity of 2,000 tons, based on aluminum ingot imported from Canada. Production from the mill will be sold to local fabricators and manufacturers.

Alcan officials say there is an existing Malayan market for aluminum sheet. They expect that this market will expand considerably in the next few years, especially in corrugated aluminum building sheet, which is much in demand for housing.

Alcan has two other subsidiaries in the area: a mining operation called Southeast Asia Bauxites, Ltd., and a sales organization, Alcan Asia, Ltd.

. . .

Russians Step Up Campaign To Woo Afro-Asian Nations

Last week was a big one for the Soviet campaign to win friends and influence people in Africa and Asia.

In Moscow, Soviet military brass played host to Gen. Ne Win, commander-in-chief of Burma's armed forces. At the same time, the U. S. S. R. and Nigeria agreed to exchange ambassadors for the first time.

Felix Diaz Bandaranaike, Ceylon's finance minister, wound up a 10-day visit to the Soviet Union with an announcement that Prime Minister Sirimavo Bandaranaike, widow of the former chief of state, plans to make an official visit next summer. And in Leningrad, a Libyan parliamentary delegation toured shipyards and power machinery plants.

Meanwhile, a number of Russians were globetrotting, too. A delegation led by Marine Minister Bakayev was welcomed at the Yemen port of Ahmedi, which was built with Soviet aid. A permanent trade exhibit for Soviet goods was opened in Addis Ababa, Ethiopia. Finally, a group of Soviet geologists left Moscow for Guinea to help that country prospect for gold and diamonds. Prospecting equipment and machinery also were shipped to the African country.

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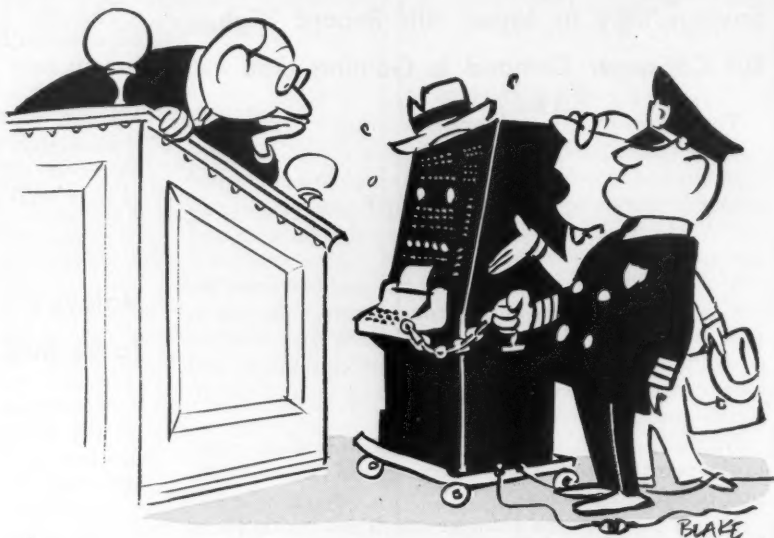
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MANAGEMENT

Computers Tangle With



As a general rule, lawyers feel uncomfortable when they stray very far from the hard reality of facts. But lately many members of the profession have been intrigued by a problem so far almost completely theoretical: What implications does the widespread use of computers in business—for paying bills, keeping records, doing engineering design, even running plants—have for legal practice, particularly in such areas as torts and liability? What legal problems does the manager run into when he turns over some of his decision-making powers to a machine?

• **Illustration**—The handcuffed computer above may be fanciful, but here's a commonly cited hypothetical case that could conceivably occur:

A Chicago bank, accepting for deposit a check drawn on a New York bank, makes a mistake in magnetically encoding the amount of the check, overstating the amount by, say, \$1,000. The rest of the check processing is handled by computer. The New York customer's account is overdebited \$1,000.

The next check he writes, to pay his life insurance premium, is returned for insufficient funds. The policy lapses, and the New Yorker dies before the mistake is discovered.

Can his widow sue for the amount of his insurance? Which bank is responsible? What if the error occurred not because of a wrong encoding, but because there was a fault in the check or in the magnetic tape to which the information was transferred or because the computer itself did something wrong?

• **Seminar**—Lawyers have been discussing questions like this in private and

in their own journals. Last month in Washington a joint committee of the American Bar Assn. and the American Law Institute held a three-day seminar on the problem.

• **Margin of Error**—There has always been the risk of error in business transactions. But with human beings handling visible records, there has also been a good chance that errors would be caught somewhere along the line. Now, with the essentially invisible record made by magnetic impulses on a plastic tape, an error once made can easily be repeated through many subsequent steps without detection.

Since the nation's big banks are moving quickly along the road to computerization, much of the seminar discussion centered around possible banking problems. Magnetically imprinted checks and deposit slips automatically assign entries made on them to the proper account, but there isn't much safeguard against forgery. The checks that banks give a customer are virtually negotiable instruments.

Is the customer therefore obligated to treat them more carefully than he would other checks? If they are lost, is he guilty of contributory negligence in case forged checks are paid? If a corporation supplies its own magnetically imprinted checks, who is responsible for an error in imprinting?

• **Case in Point**—These questions aren't entirely hypothetical. Already one large bank that has begun automatic processing of accounts has had an unpleasant experience. A customer simply distributed his stack of imprinted deposit slips among the writing desks on the banking floor. Other customers

th the Law

innocently used these slips to make their deposits, and all the money was credited to the conniver's account. He then withdrew his entire balance and disappeared.

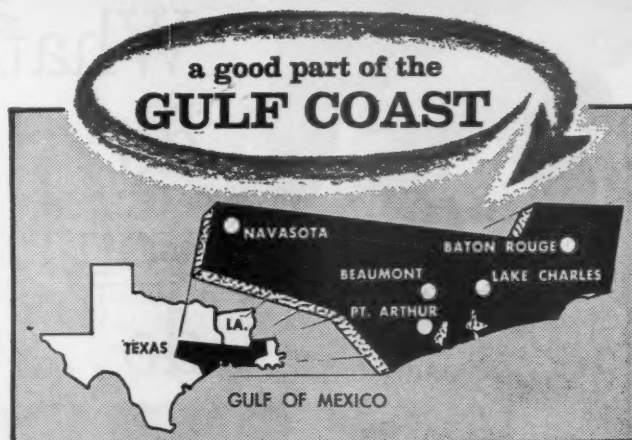
The computer is a possible source of tort action in other areas besides records handling. Claims running into the millions could result from an explosion at a computer-run plant, say, or from an airplane crash caused because a computer made a mistake in figuring the wing design.

The problem is further complicated by difficulties in introducing evidence in such cases. Some lawyers feel that judges will be reluctant to let "readout" from a computer take the place of a cross-examinable expert witness.

The corporate manager who avoids installing a computer at all still hasn't licked all the lawyers' caveats. Roy N. Freed, Philadelphia lawyer who was general chairman of the Washington meeting, offered this still pretty remote possibility: Suppose use of computers becomes customary in an industry and allows management to make better informed decisions. Then the company that refuses to install one may not be fulfilling its obligations to its stockholders and thus may open itself to charges of mismanagement. And where actual human safety is involved (as in designing the airplane wing), the corporation may be viewed as having an absolute obligation to use the computer as a tool; if it declines, it might face heavy negligence judgments in case of accident.

• **Who's Liable?**—So far these discussions have merely raised problems for executives to ponder. Obviously, the lawyers have more questions than answers about the legal status of computers. They agree, generally, that the courts will be inclined to hold for the individual customer against a bank or manufacturer. There's also a good likelihood that a company slapped with a judgment because of a computer error will be able to involve a computer service center (if one was used) and perhaps even the manufacturer of the equipment.

That's one reason why International Business Machines' Service Bureau Corp., while redoing or making a price adjustment for errors, writes into every contract that it won't be responsible for "consequential or special damages" (the canceled insurance policy or the destroyed plant). But SBC itself isn't so sure that some states won't invoke the doctrine of "absolute liability" and hold it responsible anyway. **END**



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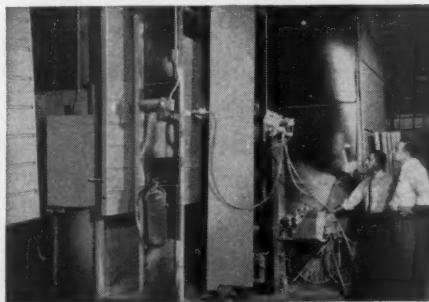
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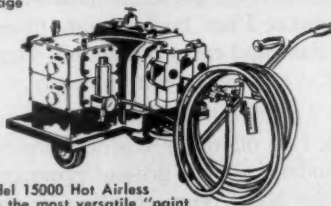
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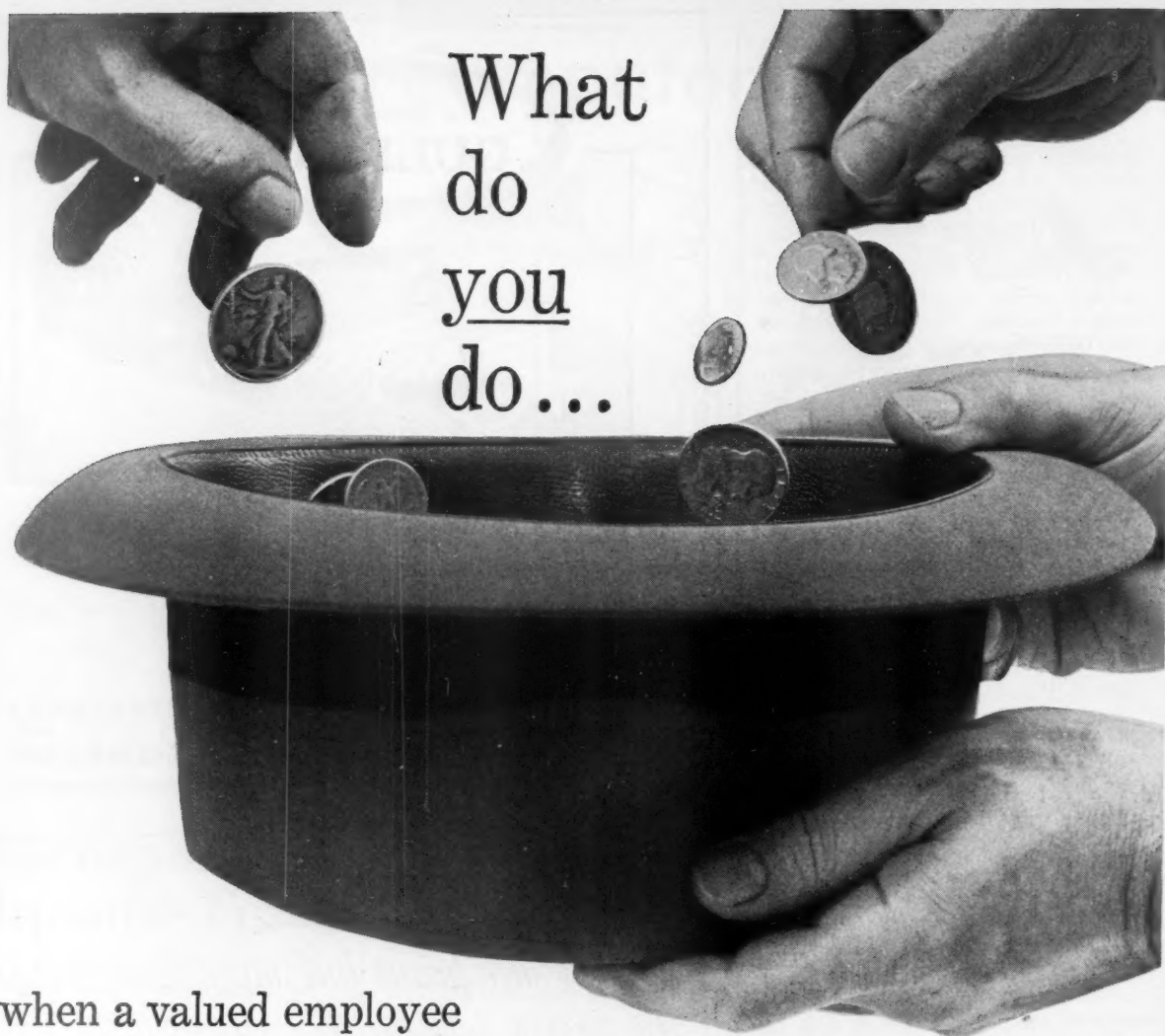
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In the Markets

...

Get-Rich-Quick Investments Scored By Funston in Sharp Warning to Public

As the stock market works up to fever pitch, strong words of caution against public speculation are being uttered by more and more securities men. This week, as trading volume soared to over 7-million shares on a single day—the highest level since the day following Eisenhower's heart attack—the get-rich-quick attitude was scored by Keith Funston, president of the New York Stock Exchange, and by the Securities & Exchange Commission.

Funston warned against unwise speculation, stating that "there is disquieting evidence that some people have not yet discovered that it is impossible to get something for nothing." He added that reports indicate that some would-be investors are purchasing shares of companies "whose names they can't identify, whose products are unknown to them, and whose prospects are, at best, highly uncertain."

It is only the second time since he was elected in 1951 that Funston has given such a warning. The first was in March, 1959, when stock prices were bustling to all-time highs and several months before prices began to decline.

But brokers say the warning should be interpreted differently this time. In 1959, there was a big influx of newcomers to the market, many of whom seemed to be dipping into cash they might have used for basic needs to buy stock and put it away for the long pull. The amber light then was to remind investors that stock purchases were to be made only after basic needs had been met.

This time, say brokers, the worry is not over neophytes, but over a new breed of semi-professionals, who have become more or less sophisticated after dealing in the market in the past few years. Apparently, they are eager to trade quickly for a few points, and profit-taking doesn't scare them as much as it does substantial investors. They also are willing to take more risks than before to make the quick killing.

This makes for a churning market, with waves of heavy volume. So far in 1961, volume has totaled more than 310-million shares, compared with less than 200-million in the same number of trading sessions a year ago. But it does not necessarily mean big price movements.

For example, on Tuesday, Apr. 4, when 7-million shares were traded, stock indexes remained relatively unchanged. Some 941,000 shares of Alleghany Corp. stock were traded that day—as the Murchison-Kirby proxy fight waxed hotter—making Alleghany the most active single issue on the New York Stock Exchange since 1929. Yet, Alleghany's price had a net gain of only 25¢.

There is no reason to think the market will sink under such pressure—although the fear is there. On the contrary, most brokers still lean toward the view the market is headed for still higher ground, although some institutional investors are less sure.

But, at the same time, churning generates speculation.

The market, in the words of one broker, has become one of price, rather than value. "People are trading pieces of paper," he says, and this is what brings on words of caution.

... SEC Wants Tighter Ad Rules

The SEC, concerned about the same uninformed speculation, has proposed regulations to restrict the claims advisory services can make in their advertising. Among other things, SEC would ban ads that employ testimonials, refer to a service's past recommendations, and describe any service as free unless it was in fact entirely free. SEC would also restrict ads that represent chart-or-graph formulas as being able to predict stock price moves—limitations of such techniques will have to be in close juxtaposition to any claims made for the formulas.

Frederick A. Stahl, president of Standard & Poor's Corp., the largest advisory service, says: "The SEC move is highly constructive; over the past six months, in fact, we have modified our ads in anticipation of the proposed rules." But it is clear that some of the smaller advisory services will have to revise their advertising drastically.

...

\$45-Million Secondary Sale Sets Record For Insurance Stock Underwriting

The sharp rise in the prices of insurance stocks was responsible for bringing out one of the largest secondary offerings in Wall Street history this week.

Through a syndicate headed by Morgan Stanley & Co. and Wood, Struthers & Co., the Aetna Life Insurance group sold 157,850 shares of Travelers Insurance Co., 254,176 shares of Hartford Fire Insurance Co., and 56,000 shares of Connecticut General Life Insurance Co. The three blocks sold for a total of \$45.5-million, setting a record not only for insurance secondaries, but also for any type of insurance underwriting. The offering was quickly oversubscribed, with most of the buying coming from institutional investors.

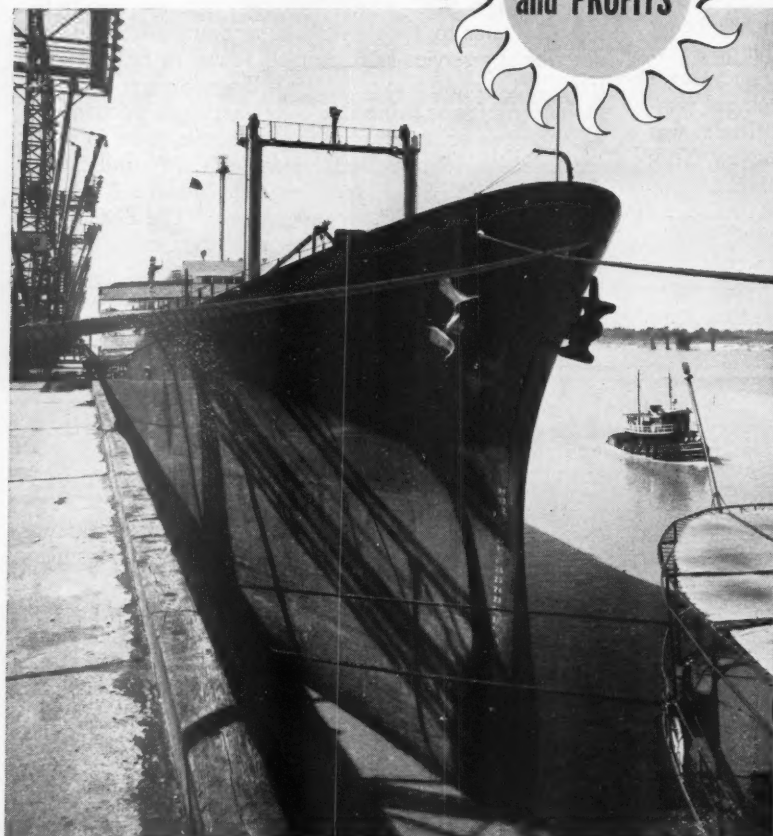
There was some talk that Aetna was divesting itself of its insurance holdings because of the threat of some future antitrust action. However, a spokesman for the underwriters insists it decided to take advantage of the high prices of insurance shares to obtain funds, which will be reinvested at higher yields in corporate or municipal bonds. Aetna was able to sell its Hartford stock at \$64 and its Connecticut General holdings at \$210, just a few points shy of their all-time highs. The \$115-a-share price of Travelers marked the highest level those shares have sold at since 1955. Since the shares were acquired at very low levels years ago, Aetna will have substantial capital gains on the deal. It can probably offset the tax liability, however, by taking losses on some of the bonds in its portfolio.

The recent offering marks the second big insurance secondary in recent weeks. Last month, Travelers sold \$22-million worth of Aetna stock. William Mittendorf of Wood, Struthers says: "We'll probably see some more secondary offerings of insurance stocks by insurance companies, because the companies want better yields."

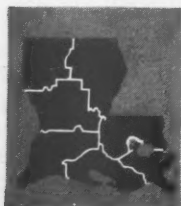
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Wall St. Talks . . .

. . . about mutual funds losing Wisconsin sales, IRS to quiz foreign subs, Lytton Financial Corp., new issues.

Vance, Sanders & Co., Inc., Boston-based distributor of mutual funds, has lost an estimated \$3.4-million in sales in the State of Wisconsin. This happened when Vance, Sanders, which distributes Massachusetts Investors Trust and four other funds, boosted its maximum sales charge on sales up to \$12,500 to 8½%, compared to the state maximum of 7½%. The big question now is whether other states will follow Wisconsin's lead and impose rate ceilings (Vance, Sanders thinks not).

Bond dealers are getting bearish. Aubrey G. Lanston & Co., Inc., a leading government bond house, estimates that gross Treasury financing in the second half will run to a minimum of \$10-billion. And the influential Moody's Bond Survey says that "an imminent business recovery and a return to deficit financing will bring higher yields [and lower prices] before long."

The Internal Revenue Service is off on a fishing expedition, which, it hopes, will bring to light abuses of foreign tax havens. IRS agents have been instructed to obtain, where available, information about "horizontal" transactions between foreign subsidiaries of U. S. corporations. IRS is out to track down cases where companies have juggled buying and selling prices between their foreign subs, so that profits can be funneled into overseas tax shelters.

Lytton Financial Corp., fast-growing California savings and loan chain (trading over-the-counter at about \$23), has a big 300,000-share stock offering on the way. Recently during a nationwide barnstorming tour, the company's ebullient millionaire president, Bart Lytton, said there were no immediate plans to sell more stock. Apparently, favorable reaction from bankers and brokers persuaded him to change his mind.

In the new issues market, brokers report indications for purchases are building upon their books for Grosset & Dunlap and D. C. Heath & Co., both big publishing houses; Mansfield Industries, a photo processor; Adler Electronics and Potter Instrument Co., electronics companies; and Charles of the Ritz, a cosmetics company.

PERSONAL BUSINESS

BUSINESS WEEK

APR. 8, 1961



The overseas "season" gets under way in about three weeks—and, sadly, 50% of all Americans joining this yearly trek will fall ill, slightly or seriously, sometime during the journey.

Even if such an illness lasts only 48 hours (as most do), it's foolish to ignore the routine planning that most often would prevent it. Small but mean ailments such as simple diarrhea and motion sickness are the usual spoilers. And nose and throat infections are frequent, too, because most travelers not only ignore sane eating habits while away from home, but also tire themselves needlessly and lower their resistance.

Checklist of specifics:

- **Shots.** Only measure required by U.S. Health Dept. rules is smallpox vaccination (within three years of departure). But typhoid, tetanus, and polio shots may be a good idea, say some specialists, particularly if you visit a number of countries. Malaria, in Europe and even in such places as the Caribbean, isn't much of a hazard these days (though it's still common in parts of Asia and Africa). Children under 10 should have a Schick test to be sure their diphtheria immunity is strong enough.

- **"Traveler's stomach."** Most common ailment, simple diarrhea, usually comes from a change in drinking water or diet—particularly foods that are poorly refrigerated, at least by American standards. Latin America, Italy, Spain, Portugal, and France are places where you can easily catch the bug. You're least likely to get it in Scandinavia. Experiment with strange foods cautiously, especially with highly seasoned dishes where the spice may disguise lack of perfect freshness.

Don't use the old home remedy, a strong purgative. For simple diarrhea, your doctor may give you something soothing like Kaopectate combined with an antibiotic; or he may suggest a non-prescription product, Entero-Vioform (Ciba). If you're laid low, get extra rest and go on a simple diet, such as tea, boiled rice, and apple sauce. If you think the water may not be safe, here are some good bottled waters to order: Spa Monopole (Belgium), Apollinaris (Germany), Vichy or Spuit (Holland), San Pellegrino or Recoaro (Italy), Solaris (Spain), and Evian, Vichy, or Perrier (France and Britain).

- **Motion sickness.** If you're prone to this ailment, carry a private supply of motion sickness pills. Among those recommended are Bonine (Pfizer), Compazine (Smith, Kline, & French), Marezine (Burroughs), Phenergan (Wyeth), Dramamine (Searle). Check with your doctor. If you're aboard ship and it gets bad, stay amidship if you can. If you must go to bed, curl up in a ball—don't lie on your back. Stay warm, too—that's important.

- **Sunburn.** Besides the usual lotions, there are pills to be taken orally—but these are for extreme cases only. Ask your doctor about triamcinalone, under two trade names Kenacort (Squibb), Aristocort (Lederle).

- **Pep pills.** A good many travelers think that some of the "psychomotor stimulants"—for instance, Dexedrine—are a good way to gain extra energy for long days and late nights on a trip. AMA has warned against this—except strictly in accordance with a doctor's recommendation.

- **Poison ivy, oak.** The same advice applies. There are pills to take to build immunity, and some are highly effective—like Aqua Ivy-AP (Syntex). Warning: These are taken in an advance series, not after infection.

- **Domestics.** If you employ a cook or other personal domestic abroad—especially in the warm climate countries—insist on his having a physical examination at the time he is hired. Each year a number of American

PERSONAL BUSINESS (Continued)

BUSINESS WEEK

APR. 8, 1961

families, particularly people traveling with children, regret neglecting this.

Names of reliable local doctors abroad usually can be obtained by calling the nearest American embassy or consulate. And if you have any specific health problem or allergy to drugs, a good idea is to take along a note from your doctor to that effect—and his phone number, in case of emergency.

—●—

If you're a perfectionist about autos, you can get some little-known "custom-tailoring" built into a new Detroit car—this is high-powered optional equipment that most dealers don't pay much attention to.

Idea is to improve performance in acceleration, braking, and over-all handling. Most car makers offer "packages" of equipment, with ample literature to rely on in advance. Pontiac probably has the widest scope of buys in this field. For instance, it has a special high-power factory engine that turns out 363 brake hp.; its purchase includes a 4-speed transmission—over-all, the outfit will top 140 mph., if you are so inclined.

Ford and other companies insist that you buy safeguards along with increased speed and power. Example: Ford will fix you up with either a 300-bhp. or 375-bhp. engine for \$254—but when you buy this, you also must get special electrical windshield wipers, fade-resistant brakes, heavy-duty shocks and springs, and nylon tires.

Chevrolet has a similar package for its 360 bhp. car; Chrysler goes even further on safeguard items with its 300 F model. Oldsmobile, Dodge, and Plymouth join this parade, too.

Average cost: Complete top performance packages generally run \$200-\$300, when ordered as original equipment along with a new car.

Mainly for the sake of better performance, there's a trend in Detroit toward the 4-speed floor gearshift. Chevrolet, Corvair, Corvette, Tempest, Hawk, and Pontiac all offer 4-speed as a shelf item. Others, such as Ford, have a floor shift, with standard 3-speed gearbox. Levers are well designed—not awkwardly placed as in old-model cars.

Heavy-duty shock absorbers, springs, and brakes usually are the same as those fitted on police cars, and can be ordered as original equipment without buying a power kit. Even if you aren't interested in the power, you might want the special chassis items for travel over country roads. Nonslip rear-axle gears are available, too, as an aid in preventing wheel slippage in bad weather and on hills.

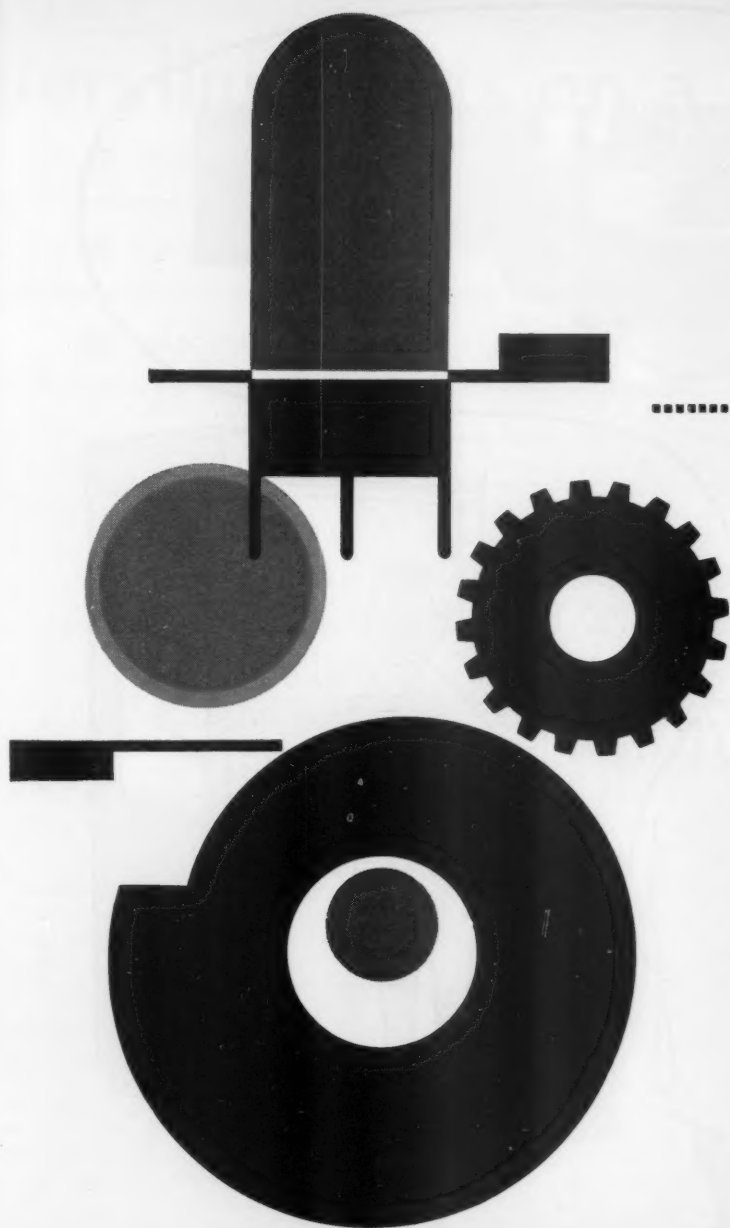
For a final touch, put on competition-type tires. Nylons with tubes are good, but you'll get better traction from tires with a high butyl content. Dunlop, Firestone, Goodyear, Michelin, and others sell them.

—●—

Books from Britain: If you enjoy reading about finance, and want a graphic and entertaining description of the way the City of London operates, read *The City*, by Paul Ferris (Random House, \$5). It tells of the men and the institutions in and around Threadneedle Street—along the lines of Martin Mayer's book on Wall Street, *Men & Money*.

A reverse twist is executed by Henry Brandon in his *As We Are* (Doubleday, \$4.50). The London Sunday Times correspondent has interviewed some leading Americans and got them to say openly what they think—of America. Here are 17 sharp, congenial conversation-pieces with such people as Margaret Mead, Reinhold Niebuhr, John F. Kennedy, Walter P. Reuther, Walt Kelly, and James Thurber.

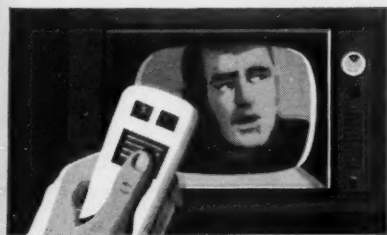
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Solid state of things to come

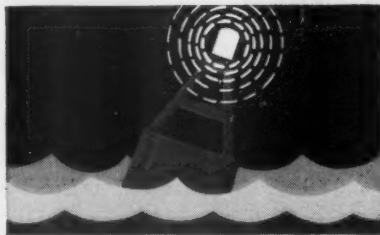
Incredibly reliable solid state devices may soon perform many complex operations that now require gears, contacts and tubes. Products of Mallory's advanced research in solid state circuitry, they have no moving parts to wear out . . . are almost infinitely versatile . . . and last virtually forever. Examples: A solid state timer that can control a home laundry cycle more reliably than ever before. A solid state switch that transfers control to a missile as it cuts loose from a supersonic bomber. In the new science of solid state circuitry, look to Mallory for progress.

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RESEARCH

Beryllium Bets on a Break

● Spurt in sales of the metal and new industry spending on research and plant point to a break near at hand.

● Companies are close-mouthed about what is behind new activity in metal long held back by high costs.

● But scientists see clue in flurry of Air Force interest—and a possible cheap new way of working with metal.

Beryllium—the gray metal with the big promise for industry, and for aeronautical and space uses—may finally be breaking out of its cocoon. That, at least, is the apparent belief of the metal's producers. And underlining this belief is a burst of activity on the sales front—industry sources estimate that sales of beryllium metal this year may run 50% ahead of 1960.

Beryllium producers for a number of years have been solemnly predicting that, despite its high cost, beryllium would someday emerge as one of industry's most important metals. Now, from their carefully couched statements, it's plain that beryllium's day may be close at hand. As it nears, competitive tension in the industry grows.

• **Unrealized Hopes**—From a purely technical standpoint, the physical attributes of metallic beryllium have been clear ever since its isolation over a century ago. It combines the extremely low specific gravity of magnesium with the relatively high melting point of cast iron. It weighs two-thirds as much as aluminum, one-quarter as much as steel. It will retain high strength at temperatures well over the melting point of most light metals, and will hold its shape better than steel under equal forces.

On paper, therefore, beryllium would seem to have a number of extremely significant applications in industry where light weight and high melting point are called for. But for a number of reasons these applications have never been realized.

The metal's prospects got a boost in World War II when it was found that pure beryllium is one of the very few metals that can play a dual role in nuclear reactors. Used as shielding material, it not only acts to prevent the products of fission from escaping, but, like graphite, it also bounces some particles back to keep a nuclear reaction going.

Commercially, however, beryllium as a metal has never really come into its own. Costs of mining, processing, and fabricating have stayed astronomically

high; and though there has been a boom in beryllium mining (BW—Aug. 6'60,p79), researchers are still struggling with difficult problems—including that of the metal's brittleness at room temperatures.

• **Leaders**—Two companies—Brush Beryllium Co. and Beryllium Corp. (Berylco) now split the great bulk of U.S. beryllium sales. Berylco's biggest business is in beryllium alloys—especially beryllium copper. Adding up to 2% beryllium to copper hardens and strengthens copper, while leaving it quite conductive. Thus it is useful in making such things as the contacts in electric circuitry in rockets, in micro-switch assemblies, and especially in spring forms. Berylco made an \$18-million business of this sort of thing in 1960—about two-thirds of the industry's total beryllium alloy sales.

• **New Bets**—It's beryllium metal itself, though, that's making the big news now. Brush Beryllium—industry leader in total sales—has been driving hard on that front. Brush's total sales in 1960 were \$28.7-million. Its sales of beryllium metal alone piled up to more than \$17-million, over 50% of the market.

Beryllium Corp.'s metal sales are moving ahead fast, too. Last year it sold only \$7-million worth of the metal. But this year its metal sales have been running better than \$1-million a month, and company executives see the 1961 total doubling last year's figure, at something like \$14-million.

Both companies are betting on an even brighter market for beryllium metal in 1962. Brush will spend 50% more on research in 1961 than in 1960. Berylco will put \$2.5-million more into metal-producing capacity at Hazleton, Pa.

• **Air Force Interest**—What has happened in the laboratory to excite this kind of enthusiasm? Does it imply a general movement toward use of beryllium in industry? New discoveries in fabrication or processing? Or, perhaps, a big new use for the metal itself?

The scientific community says it doesn't know. The companies involved

aren't talking—at least for the record. But speculation, generally, holds that the bright hope for beryllium must be connected somehow with the Air Force's recent interest in the metal.

Most beryllium metal now goes to the government in pressed block form. The Atomic Energy Commission is known to be using some for reflectors in reactors. The Defense Dept. is using increasing amounts in certain missile parts.

But this would hardly account for the pickup already registered in the metal's sales—or the high expectations for this year and next year.

What then?

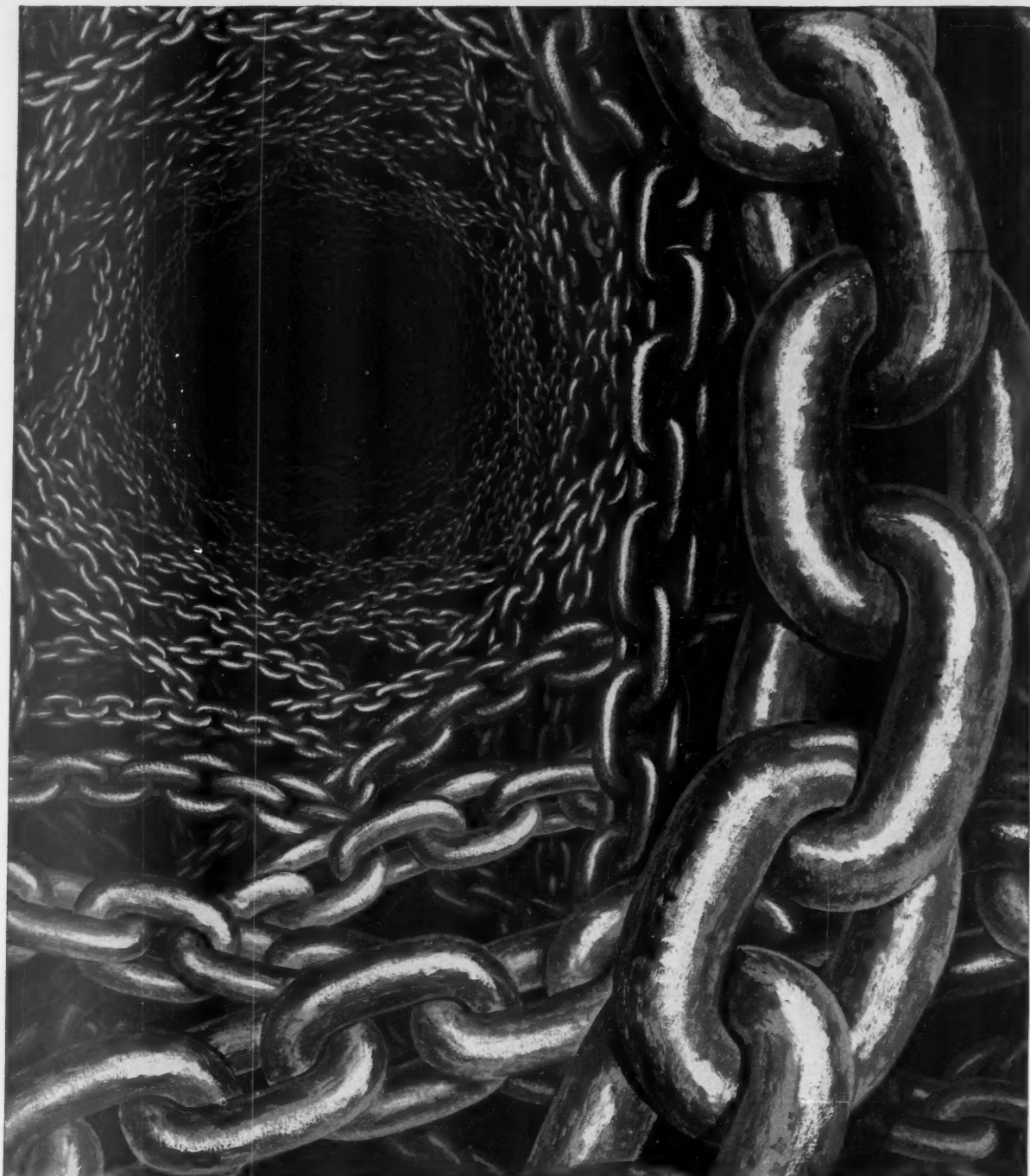
Air Force research interest is known in the stiffness of the metal and its use in construction of airfoils and similar structures where thin surfaces are mandatory, and flutter is a problem. There have been tests of the metal in the disks of high-speed brake systems.

• **Something More**—A major development in any such field could, the scientific community is saying, be the push that has started beryllium metal moving. But it doesn't account completely for the industry's bullishness about the metal's long-term growth potential—that would have to involve something to make the metal competitive economically with other materials.

Researchers have often been somewhat wary about working in the field of beryllium because of the strange allergy known as beryllium poisoning and its fatal effects. The AEC in 1949 recommended safe limits of beryllium concentrations in industry. Its standards, now widely accepted, require close attention to a number of safety rules, which inevitably add to the difficulty and cost of research as well as production.

If, scientists are saying, the Air Force has developed a cheap new method of working with the metal, there may be a simple answer to the industry's sudden burst of sales.

• **Mounting**—In any event, while the cloak of government security hides beryllium's future, sales orders for the metal continue to mount. Officially, Beryllium Corp.'s Pres. Walter R. Lowry will say only that he hopes for commercial customers for beryllium metal by 1965. His company has just recently been turning out sheet and selling it to fabricators for experimental purposes. But he and Brush's Pres. G. S. Mikhailapov are obviously gambling on the basis of much more solid evidence of new markets than this. **END**

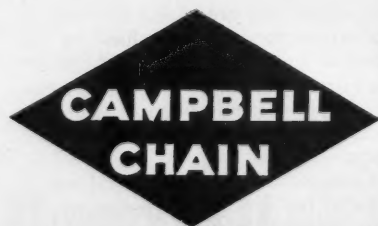


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BUSIN

In Research

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Astronauts to Get System That Recovers Oxygen From Exhaled Carbon Dioxide

A major development in the program aimed at devising a system to convert the carbon dioxide exhaled in an astronaut's breath into re-usable oxygen has been reported out of Battelle Institute in Columbus, Ohio.

Battelle's Dr. John F. Foster and Justin S. McNulty, say they have devised a three-step recovery system:

- It recovers exhaled carbon dioxide from the cabin of a space vehicle.
- It then converts the carbon dioxide into its basic elements—carbon and water.
- Finally, it electrolyzes the water into oxygen and hydrogen.

Foster and McNulty claim that their recovery system, developed under an Air Research and Development Command contract, is compact, efficient, lightweight, and low in its power demands. The engineering prototype is less than 5 ft. high, occupies only 2 sq. ft. of floor space, and weighs only 200 lb. It should be able to operate, its inventors say, for at least three years without servicing; redesign should increase its conversion rate while cutting its weight substantially.

The system is an adaptation of a well-known process formerly used to manufacture fuel gas from coal. Carbon dioxide, fed into the system, reacts with hydrogen over a heated catalyst (a combination of steel wool and iron oxide pellets) to produce water vapor and solid carbon. The condensed water vapor is then moved to an electrolytic cell where it's broken down into hydrogen and breathable oxygen. The hydrogen is recycled back to react with more carbon, forming solid carbon as the only byproduct of the reaction.

• • •

Mass Test of Sabin Polio Vaccine Will Start in U.S.: New Salk Vaccine on Sale

Parke, Davis & Co. has announced the commercial availability of a new type of Salk polio vaccine, requiring a much smaller quantity of vaccine per shot. And Chas. Pfizer & Co. is ready to start mass clinical testing of its live-virus (Sabin) oral polio vaccine in Dauphin County, Pa. These were the latest developments in the smoldering battle over dead vs. live polio vaccine that has been flaring up with increasing frequency in recent weeks (BW—Mar. 11 '61, p. 58).

Graydon L. Walker, Parke-Davis vice-president, says that his company's new formaldehyde-killed vaccine can be used either for the complete immunizing series of four polio vaccine shots or as a booster shot for patients who have received other types of vaccination. It cuts in half the amount of vaccine necessary per shot (from 1 cc. to 0.5 cc.) and thus is much less apt to cause patient sensitivity reactions. Parke-Davis thereby hopes

to reach many potential users who have been unable to submit to standard polio vaccination dosages.

At Pfizer, meanwhile, final preparations are being made for the first broad-scale testing of the company's oral (Sabin) vaccine in the U.S. Some 150,000 persons of all ages, some of whom have previously received Salk vaccinations, will be involved in the mass test program. Pfizer will give each of them two drops of its live-virus vaccine once a month for three months and then attempt to prove safety and immunization potency to the U.S. Public Health Service.

If all goes well (and from its previous test programs run in Europe and Asia, Pfizer executives are convinced that it will), the distribution of live-polio-virus vaccine could be made legal in the U.S. by fall.

Then a real battle for sales could take place. One big selling point that the makers of live-polio-virus vaccine can be expected to push hard: Salk vaccine is, by the PHS's own admission, only 90% effective in protecting individuals against contracting polio. Live-virus vaccine, like the disease itself, is claimed to give 100% protection.

• • •

Nation's Spending for R&D Still on Rise; Concern for Economic Growth Seen as Spur

U.S. expenditures for research and development are still rising. They passed the \$12.9-billion mark in 1959-1960, according to the latest surveys of the National Science Foundation. And they should run close to \$14-billion this year. But, although total R&D spending is still rising, it represents only a small percentage of our total national expenditures. It is still less than 3% of the gross national product. And it is only about a third of what U.S. industry is now spending each year on new plant and equipment. The NSF believes, however, that the importance of continuing research and development spending even during periods of general business recession has been brought home to U.S. executives. In 1958, when industry cut its capital expenditures back approximately 20%, it maintained R&D spending at a virtually constant level. And this year, a similar pattern is apparent.

The new awareness, by industry executives, of the importance of research and development can be directly traced to growing public concern over continuance of the nation's economic growth, the NSF says. Research and development and technical innovation have come to be regarded as essential ingredients in economic growth. And though scientific research may stimulate capital investment, industry now realizes that the stimulus may sometimes be reversed. For example, investment in the development of a high-speed computer opened up research in a number of fields considered unapproachable prior to its availability.

In some industries, the NSF reports, executives admit that huge investment requirements have become a major spur to research activity. A case in point is the electrical utility industry, which sponsors research on obtaining electrical energy from nuclear energy chiefly in the hope of being able—someday—to eliminate the huge capital requirements necessitated by the use of the steam turbine.

AND NOW

THEN...

ELECTRIC BOND & SHARE CO.

Dec. 31, 1937

Combined Assets—
approx. \$3.5-billion**EBASCO SERVICES,
INC.****AMERICAN & FOREIGN
POWER CO. INC.**110 subsidiary companies
operating in 13 foreign
countries**AMERICAN POWER
& LIGHT CO.**Florida Power & Light
Kansas Gas & Electric
Minnesota Power & Light
Montana Power
Nebraska Power
Pacific Power & Light
Texas Electric Service
plus 31 other companies**ELECTRIC POWER
& LIGHT CORP.**Arkansas Power & Light
Dallas Power & Light
Idaho Power
Louisiana Power & Light
Mississippi Power & Light
New Orleans Public Service
Utah Power & Light
United Gas Corp.
plus 21 other companies**NATIONAL POWER
& LIGHT CO.**Birmingham Electric
Houston Lighting & Power
Memphis Power & Light
Tennessee Public Service
Pennsylvania Power & Light
plus 32 other companies**AMERICAN GAS & ELECTRIC CO.**Appalachian Electric Power
Atlantic City Electric
Indiana General Service
Kentucky & West Virginia Power
Ohio Power
plus 21 other companies**ELECTRIC BOND & SHARE CO.**

March 24, 1961

Net Assets—\$169-million

**CASH AND SHORT-
TERM INVESTMENTS**
\$24-million**COMMON STOCK
PORTFOLIO**
\$76-million
(cost—\$43-million)**AMERICAN & FOREIGN
POWER CO. INC.**
3.8-million shares
(52.4% of total outstanding)
Current market value \$41.2-million**ESCAMBIA
CHEMICAL CORP.**
50% control (Joint venture
with United Gas Corp.)
Total investment in stock
and notes—\$17.3-million

New Industrial Power

A former giant utility holding company, doomed by the Holding Company Act of 1935, is emerging from its own ashes in a smaller but sprightlier form. By the beginning of this year, Electric Bond & Share Co. had already completed a transformation into an investment company. Now, it is seeking to broaden itself by acquiring—or, if need be, starting from scratch—companies that will form the nucleus of expansion in several different industries.

At the time of the death sentence through legislation, EBS controlled \$3.5-billion in assets and about 15% of U.S. power generation (chart, left). After a fruitless delaying action in the courts, it started unwinding its empire 17 years ago, peeling down to \$169-million in net assets (chart, above). Today it includes remnants of only two utility interests.

All that's left of the old empire: Ebasco Services, Inc., engineering and management consultant; a controlling interest, worth about \$41-million, in American & Foreign Power Co., Inc., which operates—when politics permit—utilities in Latin America; a block of 500,000 shares (3.8%) of United Gas Corp., which EBS once controlled.

• **Throwing the Switch**—The long effort of EBS to turn adversity to advantage has been led all the way by Pres. George G. Walker (shown on the cover at Escambia Chemical Corp., Pensacola, Fla., one of the newer EBS investments).

It was a memorandum from Walker, then a vice-president, that persuaded the directors in 1944 to resign them-

selves to a change in EBS' destiny, and Walker has been president since that same year. The major decision then was whether EBS would shrink itself to a small regional utility holding company, permitted under the act, or would quit the domestic utility business and rebuild in the industrial field.

From the sale of its utility properties, EBS accumulated cash that has, since 1954, been reinvested in a highly profitable portfolio of common stocks (cost \$43-million; current market value, more than \$76-million) as well as in Escambia, a joint venture with United Gas Corp. In addition, two new consulting subsidiaries have been purchased.

Ebasco Services was a nonprofit service subsidiary in the early Forties; now, working for utilities and for industry at large, it has been built into one of the largest consulting concerns in the nation. Since 1945, its volume has more than quadrupled, and it currently pays EBS \$1.5-million a year in dividends.

Ebasco has tremendous influence in the utility industry, where 80% of its work is concentrated. The Securities & Exchange Commission, in fact, is still fearful that through Ebasco, EBS might regain some of its former position of control among utilities. To prevent this, it has restricted Ebasco's dealings with utilities.

Among other things, no Ebasco employee can attend an operating committee meeting of a domestic public utility without express invitation, and then only for the purpose of getting information as to a specific assignment.

CONSULTING SUBSIDIARIES

Ebasco Services, Inc.
Chemical Construction Corp.
Walter Kidde Constructors, Inc.
Total investment \$12.9-million

EBS DEVELOPMENT CORP.

A newly formed company—will be
home base for Electric Bond's
industrial expansion



PRES. GEORGE G. WALKER and Vice-Pres. Lester Ginsburg, after 22 years under the Holding Company Act, are free to chart their company's future.

Rises on Ruins of Utility Empire

Nor can Ebasco have a contract with any of its former associates for longer than 12 months at a time, or ask for any internal reports, or act as agent in retaining the services of any law or accounting firm.

American & Foreign Power has had troubles from Argentina to Cuba. But it is still a going concern, able to pay EBS \$1.9-million in dividends last year. Like its parent, AFP is reducing its risks by cashing in some of its utility holdings and reinvesting in industrial companies.

• **New Day Coming**—Last Dec. 6, the SEC tentatively recognized that EBS was no longer a company to be regulated under the Holding Company Act, which SEC administers, but an investment company. EBS has fulfilled all the conditions of the SEC order, including application for listing on the New York Stock Exchange. This ended years of frustration for the EBS management, which chafed at the SEC restrictions that kept it from expanding into new areas.

Under regulation as an investment company, EBS will have more freedom in arranging new acquisitions, such as being able to exchange shares, tax-free, in a merger with another company—something a utility holding company can't do. It wants to invest in majority control of subsidiaries in various industrial fields.

The next step will be to achieve status as an industrial holding company, free from SEC regulation. Then it would have still more freedom.

• **First Major Step**—Escambia Chemi-

cal was Electric Bond's first major step in this direction. This \$35-million investment in petrochemicals is split equally between EBS and United Gas Corp., which is now a billion-dollar pipeline company. Walker regards Escambia as the nucleus for further acquisitions in the chemical industry; new units will be added to it.

This is only one route EBS expects to take toward a place as an industrial parent company. EBS is out to buy or, if necessary, create an array of substantial companies, each in a different industry, and to augment these with smaller companies whose profit potential—and risk—is greater.

Walker, who is 59, hopes to accomplish this final stage of EBS' transformation before he reaches retirement.

I. Mirror of History

The cycle through which EBS has whirled is a rare example of shifts in ways of doing business. It also reflects four decades of American business methods, from the free-wheeling gigantism of the 1920s through to the diversification-through-merger movement of the 1950s.

• **Empire-Building**—Electric Bond was incorporated in 1905 as a wholly owned subsidiary of General Electric Co. The original idea, soon outgrown, was for the company merely to take over and hold the securities of small, often financially distressed utilities that offered these securities as part payment for heavy electrical equipment.

Within a few months, Sidney Z.

Mitchell took over as president of the new company, and he went on to become one of the great empire-builders of the utility industry. He scrapped Electric Bond's passive role and launched an aggressive program of buying up scattered power systems and putting them together in more efficient units.

Hundreds of local properties were combined in larger operating companies that were, in turn, controlled by sub-holding companies under EBS. In typical cases, the sub-holding company held virtually 100% control of an operating company while EBS had working control, yet less than the majority of shares, of the sub.

At its peak in the late 1920s and early 1930s, EBS had working control of six major sub-holding company utility systems. It also exerted strong influence through Ebasco, which provided engineering and management service to the operating companies.

• **Off on Its Own**—In 1925, GE spun off the subsidiary to GE stockholders on a share-for-share basis. For the first time, the public got a crack at EBS stock, and it quickly became one of the most popular issues in the bull market of the 1920s. Just before the 1929 crash, it traded as high as \$567 a share—in contrast with a low of \$5 in 1932 and of 75¢ in 1941.

After the spin-off, EBS continued to build up its electric utility holding company system and in 1926 entered the gas business, too. In 1930, it combined its gas properties in United Gas Corp.

• **Under Pressure**—Meanwhile, EBS

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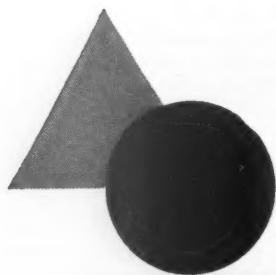
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had come under scrutiny of the Federal Trade Commission, which started an investigation in 1927 that led ultimately to the passing of the Holding Company Act. Walker recalls: "We were under continuing federal pressure, never off the defensive for the whole long period."

SEC, which received responsibility for enforcing the act, said the new law was designed "to free local operating utility companies from the control and domination of absentee and uneconomic holding companies, and to permit them to be regulated more effectively by the states in which they operate."

"These countrywide utility empires were put together with little regard for efficient and economic service . . . to consumers and without regard for the investors whose funds had been used to keep a maximum of control and profit in the hands of a few," said SEC.

The holding companies, of course, disagreed violently and challenged the law in the courts. But the courts backed the action by Congress; the utility combines had to be broken up. Early in 1938, EBS bowed by registering with SEC as a utility holding company, but it continued to fight a delaying action for another five or six years, hoping that public opinion would bring about repeal of the act. This strategy failed. And SEC prepared to dismember EBS, in the words of one staff member, "vertebra by vertebra, if necessary."

Meanwhile, the great depression had hit EBS hard. From a peak of \$54-million in 1930, its gross income slid to less than \$9-million in 1943. By this time, EBS was slowly bleeding to death, drawing down its reserves to pay out \$1.5-million or \$2-million a year more in preferred dividends than the company was earning.

• **Walker's Plan**—This was the situation in 1944 when Walker, as a vice-president, wrote his memo to the board entitled "Points to Consider in Setting the Future Course of the Electric Bond & Share Co." Rather than liquidate the company or shrink to a regional utility holding company, the board accepted Walker's industrialization suggestion.

It looked then to EBS executives as if it would take a relatively short time to put the plan into effect. "At the outside," says Walker, "we thought it would take about five years."

But it took EBS 16 years from the time of Walker's memo to get out from under the Holding Company Act, and the program of acquisitions in key industries is only starting.

II. How It Has Been Done

In the interim, however, EBS' character has been changed. Its five domes-

tic utility holding company subsidiaries have been either dissolved, sold off, or distributed to EBS shareholders on rights offerings. The underlying bondholders were paid off in full, and the preferred shareholders of the sub-holding companies received common stocks that today are worth much more than their original investments. EBS' preferred stock was simply bought up in the open market and retired.

• **United Gas**—You can see the technique used in these distributions in the way that EBS went about distributing most of its 27% stake in United Gas Corp. It acquired these shares in the reorganization of Electric Power & Light Corp., one of the sub-holding companies, which held 95% of United Gas.

On two separate occasions, EBS stockholders got the right to buy one United Gas share for every 10 EBS shares they owned, at a price under the then current market. EBS also sold two large blocks, each of more than 100,000 shares, to the general public, and got rid of another 100,000 shares through a dividend to its own stockholders.

• **New Interests**—It has reinvested the proceeds of such distributions in marketable securities, and, in the past few years, also in broadening its knowledge in engineering consultation.

In 1956, it bought Chemical Construction Corp., which designs and builds chemical plants, from American Cyanamid Co. for \$3.85-million and turned it into a big dividend producer. Last fall, to expand EBS' engineering consulting business, it bought Walter Kidde Constructors, Inc., which builds industrial plants.

Chemico is paying dividends to EBS at the rate of \$750,000 a year and Kidde, \$100,000. Ebasco, however, was paying \$2.5-million a year in dividends until mid-1960, when the decline in utility construction lopped \$1-million off its payout.

• **Foreign Power Problems**—American & Foreign Power also has been having its problems. Last year, for example, after Castro first cut the rates for Cuban Electric Co., an AFP subsidiary, and then seized the company entirely, AFP was forced to cut its dividend in half. Thus, in 1960, it was able to pay EBS only \$1.9-million in dividends, compared with dividends of \$3.5-million paid in 1959.

Regardless of its problems, the investment in AFP has its compensations. AFP's stock cost Electric Bond about \$285-million, and that's the basis for figuring capital losses, whenever EBS sells AFP stock, even though EBS on its own books has written the value down to \$42.5-million (current market price about \$41-million).

Each year EBS sells enough of its

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high-cost shares in AFP to offset the year's capital gains on its other securities, enabling it thus to pay a tax-exempt dividend to its shareholders each year. To maintain its equity position in AFP, it buys an equal number of shares on the current market—in effect swapping high-cost shares for low-cost shares.

The tax-free dividend could be an attractive feature when EBS talks of exchanging stock with a prospective merger mate. It goes a long way toward offsetting any disapproval of EBS' involvement with AFP. This association undeniably dogs EBS in the stock market; its shares follow the price trends of AFP, sometimes exaggeratedly. And with all the political uncertainty in Latin America, AFP has been at best an uncertain performer.

• **Seeking Security**—However, AFP is taking steps to improve its rate of return on capital invested in South America—a rate of return that according to Henry B. Sargent, AFP president, is "too darn low in most countries."

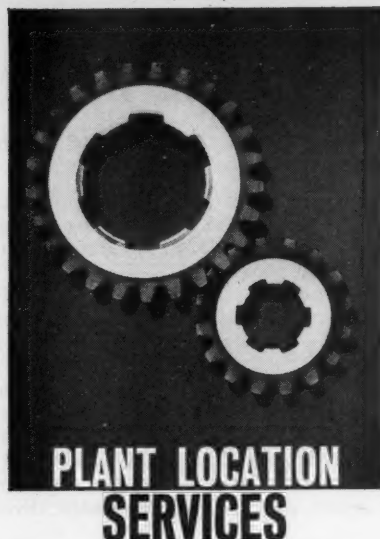
Whenever it can get what it considers a fair price, AFP is selling off its utility properties and is reinvesting the proceeds in industrial properties in the countries involved. It has already done this in Mexico—where it may shortly get into the aluminum business on a three-way deal with Alcoa and local Mexican interests. Negotiations toward eventual sale of its utility property are under way in Colombia.

There's a similar situation in Argentina, where AFP's plants were seized by Peron in the early 1950s. In 1958, a basis for a settlement of the seizure was worked out with the new Argentine government, and AFP officials are waiting for the Chief Justice of the Argentine Supreme Court to rule on the amount of the award. This ruling, expected this month, could mean a substantial infusion of immediate cash for AFP (most of which would go to pay off bank loans) and, in the longer run, an opportunity to make sizable industrial investments in Argentina.

III. Management Philosophy

The organization at the top of this diverse group of activities is extremely small—EBS has only 25 to 30 people on its staff, including clerks and messengers. The policy work of the company is in the hands of just four people: Walker; Lester Ginsburg, his chief lieutenant and alter ego; Charles C. Colt, who runs the securities portfolio, and Archibald A. Talmage, whose job is to hunt desirable companies for EBS to buy.

Walker points out that his organization is not so thin as it looks. He and his associates can always call on Ebasco, Chemico, or Kidde for advice on a merger or an acquisition and on



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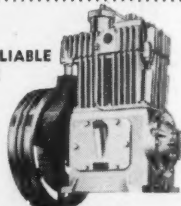
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Since 1874 Electrical World has been a working partner in the electric power industry. Recent industry problems involving anti-trust suits against some manufacturers have been detailed in both the public and business press. In this regard, and in keeping with its editorial policy, Electrical World has worked to achieve a balanced viewpoint, presenting all facets of the matter. To further implement this objective we reprint here an editorial from the March 6, 1961 issue — part of a continuing effort to bring to a complex and difficult situation the maximum of perspective.

Comment

MARCH 6, 1961



A New Phase: Equipment Price Fairness

A completely new phase of the antitrust situation now has taken the center of the stage. It concerns possible damage claims against some of the electrical equipment manufacturers involved in the Philadelphia suits.

Clearly, this is a different subject. Since its impact is on whether prices of electrical equipment were fair, rather than on the mechanism by which prices were set, it gives the opportunity for the manufacturers to demonstrate their remarkable contributions to the utility industry.

This newly spotlighted area of interest concentrates on prices paid by utilities for electrical equipment over a period of several years. Completely objective, quantitative determination of the fairness of these prices will require the wisdom of a Solomon, so complex is the situation. Resolution of differences existing between buyers and sellers demands a complete honesty of approach by all concerned, as devoid as possible from emotional clouding.

Speculation in the press that manufacturers considered themselves ripe for substantial damage settlements has been countered by statements from at least some suppliers that no liability is admitted. As reinforcement for this, the following approach is being pressed:

1. Prices paid by utilities over the period in question represent fair values.
2. Far from permitting excessive profits, these prices have assured continued innovation of the type which historically has supported rising equipment ratings and efficiencies.
3. The net result is the constantly declining unit price and increasing reliability of electricity to the ultimate consumer, despite inflation.

We subscribe wholeheartedly to this logic as a general concept (EW, Sept. 12, 1960, p 90). It is clear that the utilities, down the years, willingly have purchased innovation and progress as a component of value in their equipment.

It is equally clear that the cost of the supporting research and development is not low, and that in general the utilities have not objected to paying for it, because it produced results. The combined utility/manufacturer industry has done a remarkable job in holding down the ultimate cost of the utility kwhr while measurably improving service reliability. That much is fact.

It is not likely, of course, that contentions of this general "proof-of-the-pudding" type will be sufficient to prove or disprove completely the fairness of equipment prices. It is not clear at this point precisely what approaches will be followed. This much we believe: Any damages must be based on provable points.

But we are confident that discussions, negotiations, and, if necessary, court actions, in seeking provable points, will disclose abundant support for the thesis that a continued high level of research and development is necessary, and that the cost of R&D allocated to equipment prices over the period in question was not excessive, considering the results of such a long-term approach.

Because of the complexity of the situation, any evidence presented, pro or con, must be weighed by minds completely free of bias or emotional loading. The only matter in question here is: Were the prices fair?

It is necessary, finally, to reflect that improper judgment in this matter can well work to the long-term detriment of the ultimate user of electricity.

Electrical World



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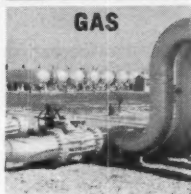
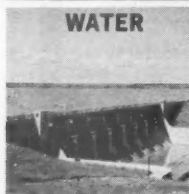
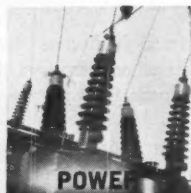
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the large staff of engineers and consultants in these subsidiaries for help in running the companies they acquire.

But as the company grows, it will have to expand its number of top-management men. For in building the new Electric Bond & Share, Walker and his team expect to make a number of large commitments and then to build upon these investments. This will require more talent than EBS now has.

• **Portfolio Managing**—You can get an idea how EBS' investment philosophy works by looking at its portfolio of marketable securities, assembled since 1954. In the entire list, there are only 39 stocks. When EBS decides to buy a stock, it usually goes in for at least \$1-million.

The big gainers in the EBS portfolio—other than a handsome 95% profit on a 50,000-share block of AT&T—have been in the electronics stocks, which EBS started buying in 1956 and 1957, long before they came into general market vogue.

EBS decided to go into electronics after market studies had indicated the potential in the field. The results speak for themselves: Among other stocks, EBS has Ampex at a cost of \$6.54 a share (current market about \$23); Litton Industries at \$15.54 (current market \$122); and Texas Instruments at about \$20 (current market \$201). These aren't piecemeal investments—EBS has almost 40,000 shares of Litton.

• **Extending the Idea**—Walker says the company is going to follow the same pattern in buying control of going companies, or in starting from scratch, as it did with Escambia. First will come a painstaking study of the market, its potential growth, its price stability, and the competition to be faced.

Then if the market position looks good, says Walker, EBS will go out in search of a company that has the know-how, patent position, and management ability to achieve better than average growth in the field. In Escambia, for example, the basic impetus was the fact that EBS and United Gas had developed a strong patent position in processes for making nitrogen chemicals, polyvinyl chloride (a plastic raw material), and methanol from natural gas.

As Electric Bond acquires control of new industrial subsidiaries, either for cash or in an exchange of stock, they will be placed in a new subsidiary, EBS Development Corp. Some day, says Walker, EBS Development Corp., which today is just a shell, may be bigger than Electric Bond is itself at present.

"After all," he says, "I've spent a good part of my career tearing down what Sidney Mitchell built up. Now I've got to find something to take the place of what I've torn down." **END**

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An Arms Budget for the Missile Age

As Pres. Kennedy copes this week with acute foreign policy problems that range from Laos and Cuba to the Geneva test-ban negotiations (page 21), he might well wish that the recommendations of his defense budget already had been adopted. If they had been, the President would be in a better position in the days and weeks ahead to resist Communist pressure around the world while attempting at the same time to come to terms with Moscow on a system of arms control.

Kennedy's defense budget, with its emphasis on a more rapid buildup of the Polaris and Minuteman missile systems, comes as no surprise to anyone familiar with missile priorities under the Eisenhower Administration. These two relatively invulnerable weapons were selected several years ago as likely to be our best bet in developing a reliable deterrent against any Soviet missile attack.

What Kennedy has wisely done is to follow up this earlier choice with a firm decision to build our nuclear deterrent in the future around the Polaris and Minuteman. At the same time, though, he has called for a strengthening of our conventional forces so that we will have, in effect, a two-level deterrent—the capacity to deter both local and nuclear wars. Perhaps equally important, he has presented these decisions to Congress and the nation in a context of a new and realistic formulation of U. S. defense policy.

In his message to Congress on defense spending, Kennedy put great stress on the fact that the Polaris and Minuteman are second-strike—or retaliatory—weapons, distinguished for their invulnerability and not for the size of the nuclear warhead that they carry. Their primary purpose is to make clear to any potential aggressor that sufficient retaliatory forces will be able to survive a first strike on his part and to inflict unacceptable losses upon him. As Kennedy indicated, the Administration's new emphasis on such weapons, rather than upon the more vulnerable and more destructive Titan missile or nuclear bomber, is clear evidence to the world that we have no intention of striking the first blow and that our military posture is defensive rather than aggressive.

To be sure, the U. S. has never thought in terms of a first-strike strategy—of launching a surprise nuclear attack. But our real strength up to now has rested on SAC's nuclear bombers, which the Russians must regard as first-strike weapons. Moreover, under the doctrine of massive retaliation, our deterrent policy included the threat of a nuclear response to any all-out conventional attack by Communist forces in such areas as Korea or Europe.

With today's nuclear standoff, the doctrine of

massive retaliation clearly has become obsolete, and Kennedy tacitly admits this fact. Even more important, his defense policy recognizes that, in the missile age, the building of additional nuclear strength could reduce rather than increase our national security by accelerating the arms race to the point where a stable mutual deterrence between East and West became impossible. In this respect, as well as in the priority he is giving second-strike weapons, Kennedy has begun shaping his defense policy to conform with the requirements of an arms control system (BW—Mar. 18'61, p54).

In line with this ultimate goal, his defense budget calls for measures to strengthen this country's capacity to handle limited wars. The objective here is to increase our ability to confine our response, in case of a local Communist aggression, to non-nuclear weapons and, at the same time, to reduce the incentive for any limited aggressions.

However, Kennedy's budgetary requests for a conventional buildup seem overly modest. If we are to have a two-level deterrent, our conventional forces clearly will need to be strengthened beyond the point recommended in the defense budget.

Resuming Leadership

The Kennedy Administration's statement on Cuba this week (page 21) is an imaginative and shrewd diplomatic maneuver. Its words are calm and persuasive; its meaning is forceful and clear. It tells the Cubans, other Latin Americans, U. S. allies elsewhere, and the Communists, without rancor or belligerence, that the U. S. will not tolerate in this hemisphere a government subservient to international Communism.

With this statement, the U. S. has taken the initiative in the Cuban affair, putting Fidel Castro on the defensive. The Administration's exposition emphasizes Castro's betrayal of the 26th of July Movement and spells out the "clear and present danger to the authentic and autonomous revolution of the Americas."

The import of the document reaches well beyond the immediate question of Cuba. It is another piece of Pres. Kennedy's policy for Latin America, which he began to enunciate in his inaugural address and further outlined when he proposed the Alliance for Progress (BW—Mar. 18'61, p30). The Administration plainly intends that the U. S. resume leadership among the American republics, not only on Cuba but in other major hemisphere affairs.

The Administration's approach to the Cuban affair evinces careful preparation and understanding of the forces involved. It deserves support.

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